

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

**CITY OF HANCOCK**  
**HOUGHTON COUNTY, MICHIGAN**  
**FINANCIAL STATEMENTS WITH**  
**SUPPLEMENTAL INFORMATION**

**June 30, 2006**

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### **INDEPENDENT AUDITOR'S REPORT**

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of and for the year then ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hancock as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 23, 2006 on our consideration of the City of Hancock's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The management's discussion and analysis and budgetary comparison information on pages 8 through 16, 47, and 48, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Hancock's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Other Supplemental Financial Information listed in the table of contents and the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Hancock. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 23, 2006

*Bruce A. Rukkila, CPA, PC*  
Certified Public Accountants



**City of Hancock**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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This section of the City of Hancock's annual Financial Report presents the Management Discussion and Analysis of the City's financial activities during the fiscal year ended June 30, 2006. The analysis focuses on the City's financial performance as a whole. It is intended to be read as part of the City's financial statements, which immediately follow this section.

**Financial Highlights**

- The assets of the City of Hancock exceeded its liabilities at the close of the most recent fiscal year by \$4,359,746 (net assets). Of this amount, \$1,810,369 (unreserved net assets) may be used to meet the government's ongoing obligations.
- The City of Hancock's total net assets increased by \$803,483. This was the result of an increase in net assets of governmental activities or \$996,534 along with a decrease in the assets of business-type activities of \$193,051.
- The City of Hancock provided services of \$3,896,421 in governmental activities and \$1,541,719 of business-type activities for expenses totaling \$5,438,140 during the year ended June 30, 2006.
- At the close of the fiscal year, the City of Hancock's governmental funds reported a combined ending fund balance of \$728,554. This is an increase of \$140,277.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$508,104 or 20 percent of total general fund expenditures and operating transfers to other funds in comparison to \$544,354 at the close of the prior year, a decrease of \$36,250.
- The City addressed the collection of delinquent personal property taxes in small claims court with taxpayers.
- The City of Hancock expended \$727,345 in federal awards requiring the City undergo a Single Audit, adopt the GASB 34 financial statement presentation and approve a fixed asset policy. The schedule of federal expenditure awards is located on page 93. A majority of the federal expenditures was the significant investment in fire protection with the purchase 100 foot Platform Truck and a Pumper Truck.
- During the fiscal year the City was able to eliminate the deficits totaling \$40,779 that were reported in the prior year for the Major Street Fund, Local Street Fund and the Parking Fund. The City had a fund balance deficit as of June 30, 2006 in the Parking Meter Fund and the Transit Fund in the amount of \$4,723 and \$11,387 respectively.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- ▶ Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- ▶ The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

*Statement of Net Assets and the Statement of Activities*

These statements provide information that help determine how the City is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

## Overview of the Financial Statements - Continued

The City's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the City's net assets is one way to determine if the financial position of the City is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the City.

There are two kinds of activities in the Statement of Net Assets and the Statement of Activities:

Governmental Activities - Most of the City's basic services are reported here, including general administration, fire, public works, and parks and recreation. These activities are financed primarily by property taxes, intergovernmental revenues, and charges for services.

Major Funds: Under GASB Statement 34, the audit focus has shifted from governmental type funds to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the City of Hancock the General Fund and Major Street Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller, less active funds. Detailed information about non-major funds can be found after the notes to the financial statements.

Business-Type Activities - Business-type activities represent those activities for which the City charges fees to customers to cover the cost of services. The City's Sewer, Water, Transit and Parking Meter Funds are business-type funds.

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the City's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.
- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information.
- Other supplementary information provides detailed information about the General Fund, Special Revenue Funds, and Proprietary Funds.

Governmental Funds - The City's basic services are mainly reported in this type of fund, which concentrates on how money goes into and out of those funds and the balances left at year end that are available for spending. Modified accrual accounting is the reporting method used for these funds. These statements provide a short-term view of the City's general governmental operations and the basic services it provides in detail. Information in these statements help determine whether there are more or fewer financial resources that can be spent in the future to finance the City's programs.

Governmental funds are essentially the same as the governmental activities with the exception that internal services are included in governmental activities but not as governmental funds. Governmental funds use a modified accrual basis of accounting and focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources.

**Overview of the Financial Statements - Continued**

In governmental funds, capital outlay and debt principal are reported on the Statement of Revenues, Expenditures and Changes in Fund Balance and depreciation is not recorded. The Balance Sheet for governmental funds does not include any capital assets or long-term debt.

Proprietary Funds - Proprietary funds use a full accrual method of accounting for both government-wide statements and fund level statements. There are two types of proprietary funds.

Enterprise funds are used to report business like activities. In general, these funds charge a fee for their services. The City uses enterprise funds for transit, parking meter, water and sewer. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows for proprietary funds. Water and Sewer funds qualify as major funds.

Internal service funds provide services to other City activities or functions. Internal service funds facilitate cost allocation of centralized services such as vehicle and equipment maintenance. The Employee Benefit fund and the Motor Vehicle Funds are the only internal service funds.

Component Units - The City has one discretely presented component included in this report, the Downtown Development Authority. Although legally separate, this component unit is important because the City is financially accountable. This component unit is shown in a separate column. The City also has a blended component unit, the City of Hancock Building Authority. The Authority is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities. Further information on the component units are found in Note A of the financial statements.

**Summary of Net Assets**

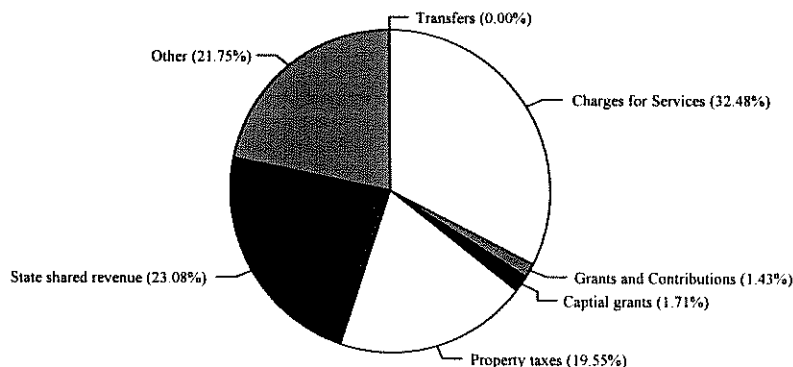
	Governmental Activities	Business-type Activities
<b>Assets</b>		
Current and other assets	\$ 1,431,100	\$ (1,146)
Capital assets- Net of accumulated depreciation	3,364,496	3,859,167
<b>Total Assets</b>	<b>\$ 4,795,596</b>	<b>\$ 3,858,021</b>
<b>Liabilities</b>		
Current liabilities	\$ 315,683	\$ 52,277
Long-term liabilities	2,258,349	1,667,562
<b>Total Liabilities</b>	<b>2,574,032</b>	<b>1,719,839</b>
<b>Net Assets</b>		
Invested in property and equipment - net of related debt	2,373,381	0
Contributed capital	0	1,910,184
Restricted for debt	(2,116,537)	0
Reserved	66,771	333,602
Unrestricted	1,897,949	(105,604)
<b>Total Net Assets</b>	<b>2,221,564</b>	<b>2,138,182</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,795,596</b>	<b>\$ 3,858,021</b>

### Results of Operations

	Governmental Activities	Business-type Activities
<u>Revenues</u>		
Program Revenue:		
Charges for services	\$ 1,612,549	\$ 1,186,621
Grants and contributions	70,815	79,080
Capital grants and contributions	85,000	0
General Revenue:		
Property taxes	970,248	0
State shared revenue	1,145,554	0
Other	1,079,908	11,848
Transfers	0	71,119
Total Revenue	4,964,074	1,348,668
<u>Functions/Program Expenses</u>		
General government	532,099	0
Public safety	1,334,793	0
Public works	1,399,781	1,541,719
Sanitation	295,095	0
Recreation and culture	117,343	0
Interest on long-term debt	9,495	0
Other	207,815	0
Transfers	71,119	0
Total Expenses	3,967,540	1,541,719
Change in Net Assets	996,534	(193,051)
Net Assets - Beginning	1,225,030	2,331,233
Net Assets - Ending	\$ 2,221,564	\$ 2,138,182

The following two charts highlight the City's governmental activities by revenues and expenses.

### Revenues-Governmental Activities

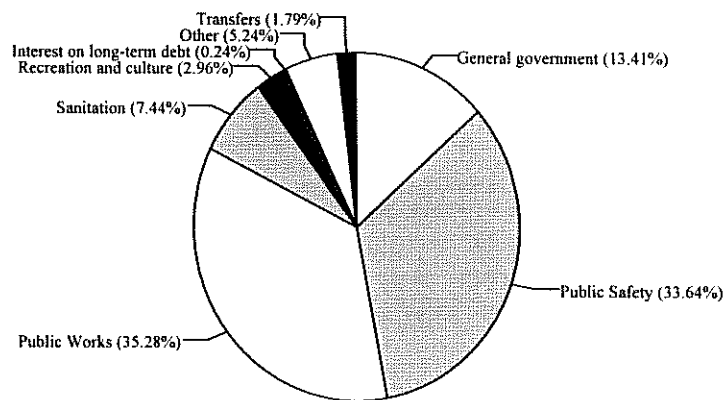


The most significant portions of the revenues for all governmental activities of the City comes from property taxes. The City's operating millage was 13.666.

The state revenue represents state shared revenue and funds for the Major and Local Street Funds from the Michigan Transportation Fund.

The charges are a combination of charges from the internal service funds for employee benefits and the use of the motor vehicles, as well as garbage collection revenue and campground revenue.

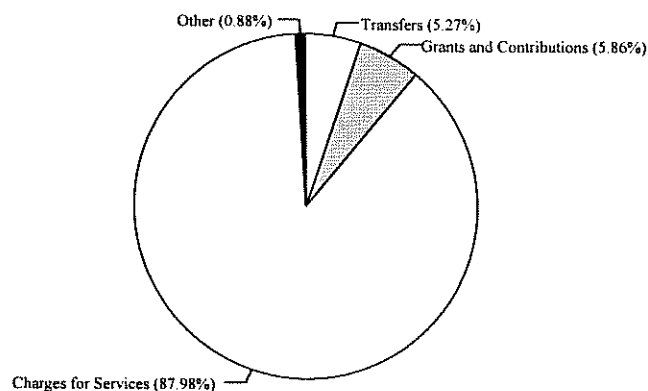
### **Expenses-Governmental Activities**



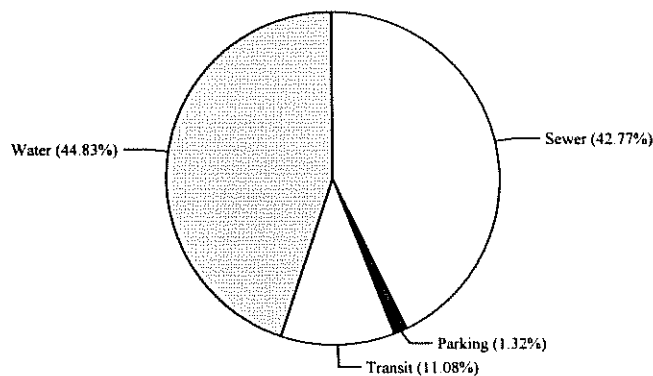
The general area expenses represent City hall activities. The major, local and motor vehicle expenses are included in the public works area. Police and fire expenses are included in public safety.

The following two charts highlight the City's business-type activities by revenues and expenses.

### **Revenues-Business-type Activities**



### Expenditures-Business-type Activities



### Significant Transactions and Changes in Individual Funds

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

#### General Fund

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 2,510,902	\$ 1,730,949	\$ 779,953
Expenditures/Transfers	\$ 2,547,152	\$ 1,706,292	\$ 840,860
Fund Balance	\$ 508,104	\$ 544,354	\$ (36,250)

The General Fund saw an increase in revenues of \$779,953. The majority of this increase can be accounted for by a loan for \$550,000 and a grant for \$85,000, both which were received to help fund the purchase of two new fire trucks.

A majority of the increase in expenditures were a result of the purchase of two fire trucks for the Fire Department, as well as upgrades to their equipment.

#### Special Revenue Funds

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Major Street Fund:			
Revenues/Transfers	\$ 508,286	\$ 469,010	\$ 39,276
Expenditures/Transfers	\$ 456,305	\$ 508,697	\$ (52,392)
Fund Balance	\$ 23,716	\$ (28,265)	\$ 51,981
Local Street Fund:			
Revenues/Transfers	\$ 334,729	\$ 351,647	\$ (16,918)
Expenditures/Transfers	\$ 325,499	\$ 359,540	\$ (34,041)
Fund Balance	\$ 0	\$ (9,230)	\$ 9,230
CDBG Fund:			
Revenues/Transfers	\$ 130,617	\$ 375,207	\$ (244,590)
Expenditures/Transfers	\$ 35,270	\$ 382,019	\$ (346,749)
Fund Balance	\$ 95,787	\$ 440	\$ 95,347
Elevation Street TIF Fund:			
Revenues/Transfers	\$ 20,794	\$ 20,290	\$ 504
Expenditures/Transfers	\$ 14,316	\$ 17,715	\$ (3,399)
Fund Balance	\$ 65,996	\$ 59,518	\$ 6,478

**City of Hancock**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Significant Transactions and Changes in Individual Funds (Continued)**

Major Street Fund - The Major Street Fund had an increase in revenues/transfers of \$39,276. The majority of this was attributed to revenue received by the State of Michigan to reimburse the city for expenses incurred while cleaning the sewers. Expenses/transfers decreased by \$52,392 due to the mild winter which required less snow removal than in prior years.

Local Street Fund - The decrease in revenues/transfers and expenses reflects the mild winter which required less snow removal than in prior years.

CDBG Fund - The CDBG fund had a significant decrease in both revenues and expenditures due to a large grant received in the prior year that was used for construction.

Enterprise Funds

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Parking Meter Fund			
Revenues/Transfers	\$ 18,970	\$ 19,405	\$ (435)
Expenditures/Transfers	\$ 20,408	\$ 23,226	\$ (2,818)
Fund Balance (Deficit)	\$ (4,723)	\$ (3,285)	\$ (1,438)
Transit Fund			
Revenues/Transfers	\$ 127,855	\$ 128,515	\$ (660)
Expenditures/Transfers	\$ 171,595	\$ 139,085	\$ 32,510
Fund Balance (Deficit)	\$ (11,387)	\$ 32,353	\$ (43,740)
Sewer Fund			
Revenues/Transfers	\$ 633,683	\$ 631,894	\$ 1,789
Expenditures/Transfers	\$ 662,164	\$ 746,669	\$ (84,505)
Fund Balance	\$ 86,100	\$ 114,581	\$ (28,481)
Water Fund			
Revenues/Transfers	\$ 568,160	\$ 528,393	\$ 39,767
Expenditures/Transfers	\$ 694,042	\$ 705,782	\$ (11,740)
Fund Balance	\$ 277,400	\$ 151,518	\$ 125,882

Transit Fund - The Transit Fund had increases in expenditures from repair and maintenance on the buses.

Sewer Fund - The Sewer Fund's expenditures decreased by \$84,504 this fiscal year. A significant portion of this can be attributed to the \$56,000 decrease in billing from Portage Lake Water and Sewer Authority.

Water Fund - The Water Funds revenue/transfer increase is from the \$35,000 transfer from General Fund for debt payments. A majority of the reduction of expenditures were in operation and maintenance.

Debt Service (Building Authority)

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 98,722	\$ 99,171	\$ (449)
Expenditures/Transfers	\$ 98,705	\$ 105,180	\$ (6,475)
Fund Balance	\$ 1,749	\$ 1,732	\$ 17

There were no administration expenditures in the debt service fund for the current fiscal year. This represents a decrease in expenditures for the fund..

**City of Hancock**  
**Management's Discussion and Analysis**  
**June 30, 2006**

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**Significant Transactions and Changes in Individual Funds (Continued)**

Residential Capital Projects

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 50,265	\$ 37,892	\$ 12,373
Expenditures/Transfers	\$ 36,739	\$ 23,539	\$ 13,200
Fund Balance	\$ 33,202	\$ 19,676	\$ 13,526

The revenue from lot sales in the amount of \$12,291 represents the majority of the increase in revenues/transfers. Expenditures are more than prior year because of the type of construction projects performed this year which included .

Internal Service Funds

Employee Benefits Fund - Employee Benefits Fund doesn't reflect any significant changes.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 862,068	\$ 880,360	\$ (18,292)
Expenditures/Transfers	\$ 829,402	\$ 824,628	\$ 4,774
Fund Balance	\$ 42,838	\$ 10,172	\$ 32,666

Motor Vehicle Fund - The Motor Vehicle Fund had a small net increase from sale of assets and lower equipment rental revenues. Total expenditures reflect a net decrease from the increase of gas and oil expenses and less in repairs and maintenance expenses.

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
Revenues/Transfers	\$ 550,850	\$ 540,458	\$ 10,392
Expenditures/Transfers	\$ 443,221	\$ 461,543	\$ (18,322)
Fund Balance	\$ 477,366	\$ 369,737	\$ 107,629

**Financial Analysis**

Governmental Funds: The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined unreserved fund balances of \$641,679.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$508,104. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents 20% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$36,250 during the fiscal year.

Proprietary Funds: The City's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Fund equity at the end of the year amounted to \$2,131,692. Of this amount \$1,910,184 is contributed capital from federal and state grants, net of amortization, \$221,508 is unrestricted.



### **Budgetary Highlights**

There is no difference between the original budget and the final amended budget as reported in the financial statements. On July 5, 2006 the City approved amendments to the budget for the fiscal year June 30, 2006 eliminating a majority of the budget violations. Since the budget was approved after the fiscal year end, the amendments were not recognized in the financial statements.

### **Capital Assets and Debt Administration**

The City's investment in capital assets for the governmental and business-type activities as of June 30, 2006, amounts to \$17,687,565. This investment in capital assets includes land, buildings, improvements, machinery and equipment. The Motor Vehicle Fund added the following assets: a backhoe, radios, and 3 trucks which totaled \$86,490. Other additions included 2 fire trucks, a Chevy Tahoe, improvement to White Street and the Old Coast Guard Site Boardwalk totaling \$890,677.

Additional information on the City's capital assets can be found starting on page 35 of this report.

Long-term debt: At the end of the current fiscal year, the City had total debt of \$3,867,262. This total amount is backed by the full faith and credit of the City. The City's total debt increased by \$505,947 during the fiscal year.

Additional information on the City's long-term debt can be found starting page 36 of this report.

### **Request for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Manager at 399 Quincy Street, Hancock, Michigan 49953 or call (906) 482-2720.

**CITY OF HANCOCK**  
**STATEMENT OF NET ASSETS**  
**June 30, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
CURRENT ASSETS:				
Cash	\$ 201,845	\$ 46,065	\$ 247,910	\$ 76,198
Restricted cash	117,900	124,713	242,613	-
Investments	24,472	-	24,472	-
Restricted investments	-	208,889	208,889	-
Receivables	202,150	129,604	331,754	18,500
Inventories	27,496	75,256	102,752	-
Prepaid expenses	94,570	2,751	97,321	-
Internal balances	596,897	(596,897)	-	-
Due from other governmental units	165,770	8,473	174,243	-
TOTAL CURRENT ASSETS	1,431,100	(1,146)	1,429,954	94,698
NONCURRENT ASSETS:				
Non-depreciable capital assets	163,800	-	163,800	114,288
Depreciable capital assets-Net	3,200,696	3,859,167	7,059,863	-
TOTAL NONCURRENT ASSETS	3,364,496	3,859,167	7,223,663	114,288
TOTAL ASSETS	\$ 4,795,596	\$ 3,858,021	\$ 8,653,617	\$ 208,986
LIABILITIES:				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 62,597	\$ 11,261	\$ 73,858	\$ -
Due to fiduciary funds	(1,761)	-	(1,761)	-
Due to other governmental units	-	14,016	14,016	-
Bonds payable, current maturities	71,788	27,000	98,788	-
TOTAL CURRENT LIABILITIES	136,146	52,277	188,423	-
NONCURRENT LIABILITIES:				
Bonds payable, less current maturities	2,100,912	1,667,562	3,768,474	-
Compensated absences	336,974	-	336,974	-
TOTAL NONCURRENT LIABILITIES	2,437,886	1,667,562	4,105,448	-
TOTAL LIABILITIES	2,574,032	1,719,839	4,293,871	-
NET ASSETS:				
Invested in capital assets, net of related debt	2,373,381	-	2,373,381	-
Contributed capital	-	1,910,184	1,910,184	-
Restricted for debt service	(2,116,537)	-	(2,116,537)	-
Reserved	66,771	333,602	400,373	-
Unreserved	1,897,949	(105,604)	1,792,345	208,986
TOTAL NET ASSETS	2,221,564	2,138,182	4,359,746	208,986
TOTAL LIABILITIES AND NET ASSETS	\$ 4,795,596	\$ 3,858,021	\$ 8,653,617	\$ 208,986

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**STATEMENT OF ACTIVITIES**  
**June 30, 2006**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Government activities:								
General government	\$ 532,099	\$ 762,893	\$ -	\$ -	\$ 230,794	\$ -	\$ 230,794	-
Public safety	1,334,793	1,988	-	85,000	(1,247,805)	-	(1,247,805)	-
Public works	1,399,781	510,244	66,815	-	(822,722)	-	(822,722)	-
Sanitation	295,095	160,130	-	-	(134,965)	-	(134,965)	-
Recreation and culture	117,343	61,927	4,000	-	(51,416)	-	(51,416)	-
Interest on long-term debt	9,495	-	-	-	(9,495)	-	(9,495)	-
Other	207,815	115,367	-	-	(92,448)	-	(92,448)	-
Total governmental activities	3,896,421	1,612,549	70,815	85,000	(2,128,057)	-	2,128,057	-
Business-type activities:								
Water	687,552	519,744	-	-	-	(167,808)	(167,808)	-
Sewer	662,164	628,587	-	-	-	(33,577)	(33,577)	-
Parking Meter	20,408	10,544	-	-	-	(9,864)	(9,864)	-
Transit	171,595	27,746	79,080	-	-	(64,769)	(64,769)	-
Total business-type activities	1,541,719	1,186,621	79,080	-	-	276,018	276,018	-
Total primary government	\$ 5,438,140	\$ 2,799,170	\$ 149,895	\$ 85,000	(2,128,057)	(276,018)	(2,404,075)	-
Component unit:								
DDA District	\$ 112,549	\$ -	\$ 40,247	\$ -	-	-	-	(72,302)
General Revenues:								
Property taxes, levied for general operations					970,248	-	970,248	88,842
State shared revenue					1,145,554	-	1,145,554	-
Interest and investment earnings					15,510	8,904	24,414	1,138
Transfers					(71,119)	71,119	-	-
Gain on sale of assets					166,569	-	166,569	-
Other					897,829	2,944	900,773	1,620
Total general revenues, transfers, and special items					3,124,591	82,967	3,207,558	91,600
Change in Net Assets					996,534	(193,051)	803,483	19,298
Net Assets - Beginning					1,225,030	2,331,233	3,556,263	189,688
Net Assets - Ending					\$ 2,221,564	\$ 2,138,182	\$ 4,359,746	\$ 208,986

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2006**

	General Fund	Major Street Fund	Other Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 67,530	\$ 25,527	\$ 72,055	\$ 139,585
Investments	24,472	-	-	24,472
Taxes receivable	39,693	-	86,267	125,960
Accounts receivable	58,799	-	-	58,799
Due from other funds	330,478	-	104,614	435,092
Due from governmental units	60,396	42,610	62,764	123,160
Inventory	14,142	-	-	14,142
Prepaid expenses	33,622	-	-	33,622
Restricted cash	62,667	-	51,621	114,288
<b>TOTAL ASSETS</b>	<b>\$ 691,799</b>	<b>\$ 68,137</b>	<b>\$ 377,321</b>	<b>\$ 1,069,120</b>
<b>LIABILITIES:</b>				
Accounts payable	\$ 20,088	\$ 4,367	\$ 2,716	\$ 22,804
Accrued expenses	11,642	1,817	591	12,233
Due to other funds	150,204	38,237	177,280	327,484
Due to fiduciary funds	1,761	-	-	1,761
<b>TOTAL LIABILITIES</b>	<b>183,695</b>	<b>44,421</b>	<b>180,587</b>	<b>364,282</b>
<b>FUND BALANCES:</b>				
Reserved	62,667	-	492	63,159
Unreserved	445,437	23,716	196,242	641,679
	508,104	23,716	196,734	728,554
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 691,799</b>	<b>\$ 68,137</b>	<b>\$ 377,321</b>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,089,343
Internal service fund is used to charge costs of equipment and operations to individual funds. The assets and liabilities are included in the governmental activities of the statement of net assets.	520,204
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,116,537)</u>
Net assets of governmental activities	<u>\$ 2,221,564</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**Year Ended June 30, 2006**

	General Fund	Major Street Fund	Other Non-major Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 863,289	\$ -	\$ 106,959	\$ 970,248
State revenue	512,071	466,522	172,661	1,151,254
Federal revenue	85,000	-	65,115	150,115
Charges for services	338,651	-	148,757	487,408
Interest	23,555	985	699	25,239
Other revenue	138,336	12,516	66,040	216,892
Total revenues	1,960,902	480,023	560,231	3,001,156
Expenditures:				
General government	339,545	25,631	27,822	392,998
Public safety	1,334,793	-	-	1,334,793
Public works	175,298	430,674	384,002	989,974
Sanitation	295,095	-	-	295,095
Recreation and culture	117,343	-	-	117,343
Debt Service	28,970	-	-	28,970
Other	81,882	-	98,705	180,587
Total expenditures	2,372,926	456,305	510,529	3,339,760
Excess (deficiency) of revenue over expenditures	(412,024)	23,718	49,702	(338,604)
Other Financing Sources (Uses)				
Loan Proceeds	550,000	-	-	550,000
Operating transfers in	-	28,263	74,896	103,159
Operating transfers out	(174,226)	-	(52)	(174,278)
Total other financing sources (uses)	375,774	28,263	74,844	478,881
Net change in fund balance	(36,250)	51,981	124,546	140,277
Fund Balances - Beginning of Year	544,354	(28,265)	71,696	
Fund Balances - End of Year	\$ 508,104	\$ 23,716	\$ 196,242	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures. This amount represents depreciation.	715,962
Internal service fund is used to charge costs of equipment and operations to individual funds. The net revenue (expense) is reported with governmental activities.	140,295
Change in net assets of governmental activities	\$ 996,534

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**PROPRIETARY FUNDS**  
**BALANCE SHEET**  
**Year Ended June 30, 2006**

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Non-major Business- Type Funds	Total	Internal Internal Service Funds
<b>ASSETS:</b>					
Current assets:					
Cash and cash equivalents	\$ 31,632	\$ 4,936	\$ 9,497	\$ 46,065	\$ 36,733
Restricted cash	12,970	111,743	-	124,713	3,612
Restricted investments	134,194	74,695	-	208,889	-
Accounts receivable	69,517	59,943	144	129,604	17,391
Inventory	23,041	52,215	-	75,256	13,354
Due from other funds	-	-	8	8	530,552
Due from other governmental units	8,473	-	-	8,473	-
Prepaid expenses	-	650	2,101	2,751	60,948
Total current assets	<u>279,827</u>	<u>304,182</u>	<u>11,750</u>	<u>595,759</u>	<u>662,590</u>
Property, plant, and equipment	5,787,904	5,681,268	120,010	11,589,182	1,610,670
Accumulated depreciation & amortization	<u>(4,444,931)</u>	<u>(3,188,623)</u>	<u>(96,461)</u>	<u>(7,730,015)</u>	<u>(1,335,517)</u>
	<u>1,342,973</u>	<u>2,492,645</u>	<u>23,549</u>	<u>3,859,167</u>	<u>275,153</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,622,800</u></b>	<b><u>\$ 2,796,827</u></b>	<b><u>\$ 35,299</u></b>	<b><u>\$ 4,454,926</u></b>	<b><u>\$ 937,743</u></b>
<b>LIABILITIES:</b>					
Current liabilities:					
Accounts payable	\$ 2,816	\$ 2,700	\$ 2,707	\$ 8,223	\$ 14,291
Accrued expenses	535	895	1,608	3,038	164,522
Due to other funds	95,003	454,808	47,094	596,905	3,026
Due to other governmental units	-	14,016	-	14,016	-
Current maturities on long term debt	<u>10,000</u>	<u>17,000</u>	<u>-</u>	<u>27,000</u>	<u>71,788</u>
Total current liabilities	<u>108,354</u>	<u>489,419</u>	<u>51,409</u>	<u>649,182</u>	<u>253,627</u>
Long-term liabilities:					
Bonds/note payable	<u>75,000</u>	<u>1,592,562</u>	<u>-</u>	<u>1,667,562</u>	<u>163,912</u>
<b>TOTAL LIABILITIES</b>	<b><u>183,354</u></b>	<b><u>2,081,981</u></b>	<b><u>51,409</u></b>	<b><u>2,316,744</u></b>	<b><u>417,539</u></b>
<b>FUND EQUITY:</b>					
Contributed capital	<u>1,353,346</u>	<u>556,838</u>	<u>-</u>	<u>1,910,184</u>	<u>-</u>
Retained earnings:					
Reserved	147,164	186,438	-	333,602	3,612
Unreserved	<u>(61,064)</u>	<u>(28,430)</u>	<u>(16,110)</u>	<u>(105,604)</u>	<u>516,592</u>
Total retained earnings	<u>86,100</u>	<u>158,008</u>	<u>(16,110)</u>	<u>227,998</u>	<u>520,204</u>
<b>TOTAL FUND EQUITY</b>	<b><u>1,439,446</u></b>	<b><u>714,846</u></b>	<b><u>(16,110)</u></b>	<b><u>2,138,182</u></b>	<b><u>520,204</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 1,622,800</u></b>	<b><u>\$ 2,796,827</u></b>	<b><u>\$ 35,299</u></b>	<b><u>\$ 4,454,926</u></b>	<b><u>\$ 937,743</u></b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN RETAINED EARNINGS**  
**Year Ended June 30, 2006**

	Business-Type Activities Enterprise Funds				Governmental Activities
	Sewer Fund	Water Fund	Non-major Business Type funds	Total	Internal Service Funds
OPERATING REVENUES:					
Sales and charges for services	\$ 628,587	\$ 519,744	\$ 38,290	\$ 1,186,621	\$ 1,273,137
State revenue	-	-	51,850	51,850	-
Federal revenue	-	-	27,230	27,230	-
Other revenue	1	1,445	1,498	2,944	103,248
TOTAL OPERATING REVENUES	628,588	521,189	118,868	1,268,645	1,376,385
OPERATING EXPENSES:					
General administration	33,588	72,805	36,343	142,736	855,063
Meter reading	8,998	9,011	-	18,009	-
Purchase of water	-	179,539	-	179,539	-
Operations and maintenance	515,433	253,307	138,021	906,761	306,040
Depreciation	99,395	106,432	17,639	223,466	103,767
TOTAL OPERATING EXPENSES	657,414	621,094	192,003	1,470,511	1,264,870
OPERATING INCOME (LOSS)	(28,826)	(99,905)	(73,135)	(201,866)	111,515
NON-OPERATING REVENUES (EXPENSES):					
Gain on sale of asset	-	-	-	-	35,745
Interest income	5,095	3,598	211	8,904	788
Interest expense	(4,750)	(72,948)	-	(77,698)	(7,753)
Operating transfers in	-	43,373	27,746	71,119	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	345	(25,977)	27,957	2,325	28,780
NET INCOME (LOSS)	(28,481)	(125,882)	(45,178)	(199,541)	140,295
RETAINED EARNINGS, BEGINNING OF YEAR	114,581	277,400	29,068	421,049	379,909
ADJUSTMENTS TO FUND EQUITY:					
Add depreciation on fixed assets acquired with contributed capital	-	(6,490)	-	(6,490)	-
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ 86,100	\$ 158,008	\$ (16,110)	\$ 227,998	\$ 520,204

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HANCOCK**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**Year Ended June 30, 2006**

	Business Type Activities Enterprise Funds	Governmental Activities Internal Service Funds	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 731,923	\$ 0	\$ 731,923
Payments to suppliers	(544,872)	(1,090,074)	(1,634,946)
Internal activity -- receipts (payments) to other funds	(93,935)	1,241,710	1,147,775
Payments to employees	(146,560)	(38,612)	(185,172)
Other receipts (payments)	1,498	110,515	112,013
Net cash provided by operating activities	<u>(51,946)</u>	<u>223,539</u>	<u>171,593</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating subsidies and transfers to other funds	<u>48,099</u>	<u>(134,278)</u>	<u>(86,179)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	0	0	0
Purchases of capital assets	0	(86,489)	(86,489)
Sale of capital assets	0	36,545	36,545
Principal paid on capital debt	(10,000)	(26,227)	(36,227)
Interest paid on capital debt	(4,750)	(7,753)	(12,503)
Net cash (used) by capital and related financing activities	<u>(14,750)</u>	<u>(83,924)</u>	<u>(98,674)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	(4,225)	0	(4,225)
Interest and dividends	5,306	788	6,094
Net cash provided by investing activities	<u>1,081</u>	<u>788</u>	<u>1,869</u>
Net (decrease) in cash and cash equivalents	<u>(17,516)</u>	<u>6,125</u>	<u>(11,391)</u>
Balances -- beginning of the year	71,615	34,220	105,835
Balances -- end of the year	<u>\$ 54,099</u>	<u>\$ 40,345</u>	<u>\$ 94,444</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (101,961)	\$ 111,515	\$ 9,554
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	117,034	103,767	220,801
Change in assets and liabilities:			
Receivables, net	(14,036)	7,267	(6,769)
Due from other governmental units	(8,473)	0	(8,473)
Inventory	6,304	0	6,304
Prepaid expenses	150	8,079	8,229
Accounts and other payables	(1,694)	(4,982)	(6,676)
Due to other governmental	(44,754)	0	(44,754)
Accrued expenses	(4,516)	(2,107)	(6,623)
Net cash provided by operating activities	<u>\$ (51,946)</u>	<u>\$ 223,539</u>	<u>\$ 171,593</u>

The accompanying notes to financial statements are an integral part of this statement.



**CITY OF HANCOCK**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	Non-Expendable Trust Fund			Totals (Memorandum Only)	
	Cemetery	Agency Funds			
	Perpetual				
	Care Trust	Agency	Payroll	2006	2005
ASSETS:					
Cash and equivalents	\$ 71,413	\$ 1,873	\$ 2,129	\$ 75,415	\$ 70,418
Investments	86,650	-	-	86,650	83,900
TOTAL ASSETS	<u>\$ 158,063</u>	<u>\$ 1,873</u>	<u>\$ 2,129</u>	<u>\$ 162,065</u>	<u>\$ 154,318</u>
LIABILITIES:					
Accounts payable	\$ -	\$ -	\$ 2,129	\$ 2,129	352
Due to other funds	-	1,675	-	1,675	1,614
Due to other governmental units	-	198	-	198	-
TOTAL LIABILITIES	<u>-</u>	<u>1,873</u>	<u>2,129</u>	<u>4,002</u>	<u>1,966</u>
FUND EQUITY:					
Fund balance:					
Reserved	158,063	-	-	158,063	152,352
TOTAL FUND EQUITY	<u>158,063</u>	<u>-</u>	<u>-</u>	<u>158,063</u>	<u>152,352</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 158,063</u>	<u>\$ 1,873</u>	<u>\$ 2,129</u>	<u>\$ 162,065</u>	<u>\$ 154,318</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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On November 10, 1987, the voters of the City of Hancock voted to establish a Charter Commission for the purpose of rewriting the City Charter that was adopted on July 13, 1982. A new City Charter was drafted by the Charter Commission and approved by the State of Michigan on November 16, 1987. On August 2, 1988, City voters approved the new charter, which changed the City's form of government to the City Council/Manager form.

The City provides services for public safety, public works, sanitation, recreation, and community development as authorized by its Charter.

The accounting policies of the City of Hancock conform to generally accepted accounting principles for local governmental units as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City of Hancock (the primary government) and its component unit. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. The criteria and guidelines of the Governmental Accounting Standards Board Statement Number 14 *The Reporting Entity* are utilized to determine that all applicable entities are included in the combined financial statements of the City. The primary criterion for inclusion is the degree of oversight responsibility over such entities by the City's elected officials. This responsibility includes financial interdependency, selection of governing authority, selection of management, ability to significantly influence operations, and accountability for fiscal matters. Additional criteria that are considered even if there is no significant oversight responsibility are an entity's scope of public service and special financing relationships between a particular agency and the reporting entity.

The following organizations are not included in the reporting entity of the City:

**Hancock Housing Commission**

The Hancock Housing Commission was formulated to construct and operate housing for low income families and senior citizens. The elements considered in the City's determination that the Hancock Housing Commission should not be included as part of the City's general purpose financial statements are as follows:

1. Neither the Council nor management of the City of Hancock is responsible for the designation of the Housing Commission management. Similarly, the City of Hancock does not approve Housing Commission budgets nor does it significantly influence operations.
2. The City of Hancock does not have significant fiscal management responsibilities; it is not responsible for funding or guaranteeing debt, nor does it have a right to receive surplus funds.
3. The City of Hancock provides no ongoing financial support to the Hancock Housing Commission, nor do any special financing relationships exist.
4. Residency in the housing complex is not limited to City residents.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Audited financial information of the Hancock Housing Commission as of and for the year ended December 31, 2005 is as follows:

Total assets	<u>\$ 1,705,864</u>
Total liabilities	\$ 214,668
Total equity	<u>1,491,196</u>
Total liabilities and surplus	<u>\$ 1,705,864</u>
Operating income	\$ 568,969
Operating expenses	<u>776,042</u>
Net operating income	(207,073)
Net Non-operating revenues(expenses)	<u>80,095</u>
Net income	<u>\$ (126,978)</u>

**Portage Lake Water and Sewage Authority**

On January 24, 1964, the City of Houghton and the City of Hancock executed a contract to jointly acquire, construct, equip, and operate a sewage treatment plant, including necessary intercepting sewers and appurtenances. Each municipality was to bear one-half of the cost of the sewage treatment plant, pumping stations, and necessary appurtenances and the full cost of its own intercepting sewers. Title to the sewage plant, including land and ownership shall be in the name of the authority whereas the ownership of the intercepting sewers, vests in the respective municipality. Funds for the construction of these facilities were provided by each municipality through the issuance and sale of general obligation bonds and grants totaling \$500,000 from the Federal government. By joint agreement, operating expenses incurred from the inception of operations to February 29, 1966, were shared equally, and for the balance of 1966 on the basis of two-thirds to the City of Houghton, and one-third to the City of Hancock. The contract provides for a joint board to control, manage, and operate the facility with each municipality to share the cost of operation, maintenance, and administration on the basis of relative usage as determined by metered services with 50 percent of the costs of capital expenditures to be paid by each municipality. On December 14, 1972, this agreement was amended to provide allocation of future capital expenditures on the basis of relative usage. The joint board consists of five members of which two are appointed by the respective City Councils and the fifth member appointed by the other four members.

The elements considered in the City's determination that the Portage Lake Water and Sewage Authority should not be included as a component unit of the City are as follows:

1. The City of Hancock is not responsible for the designation of the Authority's management.
2. The City does not approve the Authority's annual budget or budget amendments.
3. The City does not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The City does not have significant fiscal management responsibilities. It does not have a right to receive surplus funds, but is responsible for guaranteeing certain debt along with the City of Houghton.
6. The City provides no direct on-going financial support to the Water and Sewage Authority.
7. The City does not hold title to the physical assets of the Authority.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

A summary of the Authorities financial information for the year ended June 30, 2006 (most recent year audited) shows the following:

Total assets	\$25,219,507
Total liabilities	\$8,303,670
Total equity	\$16,915,837
Total revenues	\$1,143,383
Total expenditures	\$1,143,383
Long-term debt	\$7,794,424

Financial transactions between the City and the Authority, reported in the accompanying financial statements, constitute contractual agreements with the Authority for providing services to the City.

**COMPONENT UNITS**

In conformity with generally accepted accounting principles, the financial statements of component units, have been included in the financial reporting entity either as blended component units or as discretely presented component units.

**DISCRETELY PRESENTED COMPONENT UNITS**

The component units' columns in the combined financial statements include the financial data of the City's component unit, the Downtown Development Authority (DDA). This unit is reported in a separate column to emphasize that it is legally separate from the City. Complete financial statements of the DDA may be obtained from the City Clerks Office, 399 Quincy Street, Hancock, MI 49930.

**BLENDED COMPONENT UNITS**

**City of Hancock Building Authority**

The Authority is an entity legally separate from the City. The Authority is governed by a board appointed by the City and is reported as if it were part of the City's operations because its primary purpose is that of a financing vehicle for the construction of City facilities.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each function is self-financing or draws from the general revenues of the City.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unrestricted net assets.

The City first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The City does not allocate indirect costs.

The government-wide focus is more on the sustain ability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds, Enterprise funds, Internal Service funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Major Street Fund- The Major Street Fund accounts for the State of Michigan Public Act 51 monies that are used to construct and maintain major road systems.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific revenue sources such as the Local Street, and the Community Development Block Grants.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PROPRIETARY FUND TYPES**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary funds principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds included the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Village reports the following proprietary funds:

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Water Fund, Sewer Fund, Parking Fund, and Transit Fund are enterprise type funds.

Internal Service Funds- Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost reimbursement basis. The City's Motor Vehicle Fund and Employee Benefit Fund are Internal Service Type Funds.

The City reports the following major proprietary funds:

**Sewer Fund**- The Sewer Fund records maintenance and operations of the sewer services provided for City residents and is financed primarily through user charges and bonds.

**Water Fund**- The Water Fund records maintenance and operations of the water system services provided for the City residents and it is primarily financed through user charges and bonds.

**Motor Vehicle Fund**- The Motor Vehicle Fund accounts for the costs of operating and maintaining the equipment and vehicle purchases of the City as well as services provided to other departments of the City on a cost reimbursement basis.

**Employee Benefit Fund**- The Employee Benefit Fund accounts for the costs of all employee benefits provided by the City.

**FIDUCIARY FUND TYPES**

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Fiduciary Funds are not included in the government-wide statements.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

Modified Accrual Method

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

*Other Accounting Policies*

Cash and cash equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

The City reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and No. 40, Deposits and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statues authorizes the City to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The City is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, banker's acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Property Taxes

Property taxes on tax roll properties attach as an enforceable lien on property as of December 31, are levied annually on July 1, and are due on August 10. A one percent (1%) penalty per month is added to the tax liability for taxes not paid by August 10.

The City bills and collects its own property taxes, and those of the local school City, the Intermediate School district, and County. Collections of other units' taxes and remittance of these collections are accounted for in the Trust and Agency Fund. City property tax revenues are recognized when levied to the extent that they result in current receivables.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Receivables and Payables

Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivables, are shown net of allowance for uncollectables.

### Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of expendable supplies. The individual inventory supplies are recorded as an asset when purchased.

### Capital Assets

Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with an activity are included on their balance sheets. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is generally reflected over the estimated useful lives using the straight line method.

### Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

### Encumbrances

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.



**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Reclassification

Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Requirements for preparing the City's annual budget are outlined in the City Charter. Major procedures in preparing the annual budget are as follows:

1. On or before the 1st Monday in April of each year, the City Manager submits to the City Council an operating budget and capital improvement projections for the ensuing fiscal year.
2. A public hearing on the budget is held not less than one week before the budget's final adoption at such time as the council shall direct.
3. On or before the last day in May, the Council, by resolution, adopts a budget for the ensuing fiscal year.
4. The City Council adopts the budget by activity categories generally the same as those presented in the combined financial statements. All budget amendments and transfers during the fiscal year are approved by the Council. The City Council has the authority to amend the budget when it becomes apparent that deviations in the original budget will occur and the amount of the deviation can be determined. The City maintains and monitors the budget on a line item basis for accounting control purposes. During the year ended June 30, 2006, the City's budget had been amended.
5. The City allows all unencumbered and unexpended appropriations to lapse at year end.

In accordance with the State of Michigan Budgeting and Accounting Act, the City must adopt an annual operating budget for the General and Special Revenue.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for major funds are noted in the required supplementary information section.

**NOTE C - CASH AND INVESTMENTS**

As of June 30, 2006 the City had the following investments:

Investment Type	Fair Value	Cost	Rating
Treasury Money Market Fund	<u>\$ 233,361</u>	<u>\$233,361</u>	AAA

Interest Rate Risk - In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit Risk - State law limits investments in commercial paper corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE C - CASH AND INVESTMENTS (Continued)**

Concentration of Credit Risk - The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk - Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2006, \$130,624 of the City's bank balance of \$718,142 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

Custodial Credit Risk - Investments - For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

At year-end, the City's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the City is as follows:

	Governmental Activities	Business Type Activities	Total Primary Government	Component Units	Fiduciary Funds
Unrestricted	\$ 201,845	\$ 46,065	\$ 247,910	\$ 76,198	\$ 0
Restricted Cash	117,900	124,713	242,613	0	75,415
Total Cash and Cash Equivalents	319,745	170,778	490,523	76,198	75,415
Unrestricted Investments	24,472	0	24,472	0	0
Restricted Investments	0	208,889	208,889	0	86,650
Total Investments	24,472	208,889	233,361	0	86,650
Total deposits and investments	\$ 344,217	\$ 379,667	\$ 723,884	\$ 76,198	\$ 162,065

**NOTE D - TRANSFERS AND INTERFUND BALANCES**

For the year then ended, interfund transfers consisted of the following:

Fund	Transfer Out	Fund	Transfer In
General	\$ 174,226	Major Street	\$ 28,263
		Local Street	74,844
		Parking Meter	8,385
		Transit	19,361
		Water	43,373
		Sub-total	174,226
CDBG MC-97-567	52	CDBG	52
TOTALS	\$ 174,278	TOTALS	\$ 174,278

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE D - TRANSFERS AND INTERFUND BALANCES (Continued)**

The transfers from the General Fund and other non-major governmental funds to the Major and Local Street Funds and other non-major governmental funds represents the use of unrestricted resources to finance these programs, in accordance with budgetary authorizations. The transfers from all funds to the Employee Benefits Fund and the Motor Vehicle funds represents the amounts paid for the services provided from each service fund.

The amounts of interfund receivables and payables at June 30, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 330,478	Transit	\$ 20,000
		Parking	2,300
		Sewer	52,275
		Water	255,903
Subtotal	<u>330,478</u>	Subtotal	<u>330,478</u>
Local Street	<u>65,614</u>	General	<u>65,614</u>
Elevation St.-TIF	39,000	Sewer	19,500
		Water	19,500
Subtotal	<u>39,000</u>	Subtotal	<u>39,000</u>
Parking Meter	<u>8</u>	Motor Vehicle	<u>8</u>
Employee Benefits	140,517	General	50,960
		Major Street	2,342
		Local Street	13,308
		Sewer	7,525
		Water	38,570
		Parking	4,370
		Motor Vehicle	3,018
		Transit	20,424
Subtotal	<u>140,517</u>	Subtotal	<u>140,517</u>
Motor Vehicle	390,035	General	33,630
		Major Street	35,895
		Local Street	163,972
		Sewer	15,703
		Water	140,835
Subtotal	<u>390,035</u>	Subtotal	<u>390,035</u>
TOTALS	<u>\$ 900,038</u>	TOTALS	<u>\$ 900,038</u>

Generally, outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payable between funds

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE E - GENERAL FIXED ASSETS**

A summary of the changes in general fixed assets is as follows:

	Balance 6/30/05	Adjustments to historical costs*	Additions	Subtractions	Balance 6/30/06
Land	\$ 390,026	\$ (226,226)	\$ 0	\$ 0	\$ 163,800
Depreciable Capital Assets					
Buildings	2,224,051	(129,274)	0	0	2,094,777
Equipment	1,266,927	(1,157,605)	0	0	109,322
Improvements	0	959,193	209,000	0	1,168,193
Vehicles	0	269,944	681,677	0	951,621
Subtotal	<u>3,490,978</u>	<u>(283,968)</u>	<u>890,677</u>	<u>0</u>	<u>4,323,914</u>
Accumulated Depreciation					
Buildings	0	(689,938)	(55,154)	0	(745,092)
Equipment	0	(60,578)	(9,245)	0	(69,823)
Improvements	0	(346,909)	(58,591)	0	(405,500)
Vehicles	0	(126,230)	(51,725)	0	(177,955)
Subtotal	<u>0</u>	<u>(1,223,655)</u>	<u>(174,715)</u>	<u>0</u>	<u>(1,398,370)</u>
Net Capital Assets	<u>3,490,978</u>	<u>(1,507,623)</u>	<u>715,962</u>	<u>0</u>	<u>2,925,544</u>
Net capital assets	<u>\$ 3,881,004</u>	<u>\$ (1,733,849)</u>	<u>\$ 715,962</u>	<u>\$ 0</u>	<u>\$ 3,089,344</u>

\* During the year, fixed assets have been adjusted by (\$1,733,849) to reflect historical cost and accumulated depreciation as of July 1, 2005.

Depreciation expense was charged to governmental activities of the Village as follows:

General Fund	\$ 134,702
Major Streets Fund	12,000
Local Streets Fund	28,013
	<u>\$ 174,715</u>

**NOTE F - PROPRIETARY FUNDS - PROPERTY, PLANT, AND EQUIPMENT**

The components of property, plant, and equipment in City proprietary funds at June 30, 2006 are summarized as follows:

	Enterprise Funds	Internal Service Funds	Total
Land and Improvements	\$ 0	\$ 11,506	\$ 11,506
Buildings	2,400,417	0	2,400,417
System Lines	8,830,875	0	8,830,875
Vehicles	85,896	1,464,639	1,550,535
Equipment	271,993	134,525	406,518
Total	11,589,181	1,610,670	13,199,851
Allowances for Depreciation	(7,730,015)	(1,335,517)	(9,065,532)
Balance	<u>\$ 3,859,166</u>	<u>\$ 275,153</u>	<u>\$ 4,134,319</u>

Property, plant, and equipment are recorded at cost and accounted for in the proprietary funds. Depreciation on such assets is charged as an expense against the operations of the funds on a straight-line basis. Depreciation is based on the estimated useful lives of the assets using 3-10 years for equipment and 40-50 years for property and plant.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE G - RESTRICTED ASSETS - PROPRIETARY FUNDS**

Enterprise Funds: Certain proceeds from operations of the Water Supply System Fund and Sewer Disposal Fund are restricted for the payment of revenue and general obligation bonds and, accordingly, are recorded as restricted cash assets in the amount of \$333,602 as of June 30, 2006. Both the Sewer and Water Funds balance sheets have restricted cash in the amount of \$147,164 and \$186,438, respectively. Use of these restricted assets are limited by applicable bond indentures and ordinances.

Internal Service Funds: The Employee Benefit Fund has restricted assets of \$3,612 as of June 30, 2006.

**NOTE H - ACCUMULATED UNPAID VACATION AND SICK LEAVE**

City employees generally earn sick leave at the rate of one day per month. Accumulated sick leave per employee cannot exceed ninety (90) days and is paid to union employees upon retirement or to beneficiaries in case of death. At termination, non-union employees receive 2/25 of their accumulated sick leave plus an additional 1/25 of that accumulation for each year of service until full accumulation is paid for 25 years of service or age 65. Vacation pay is accumulated annually based on length of service and must be used within one year.

Accumulated unpaid vacation and sick leave at June 30, 2006 was \$91,111 and \$245,863, respectively.

**NOTE I - LONG-TERM DEBT**

GOVERNMENTAL ACTIVITIES

1997 Building Authority Bonds: On August 15, 1997, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$533,800 to fund the construction of a new fire hall. The bond was issued in a single denomination of \$533,800 at an interest rate not to exceed 5.0% per annum with principal amounts payable August 1 and interest payable semi-annually on February 1 and August 1.

SCHEDULE OF 1997 BUILDING AUTHORITY BONDS

Year	Principal	Interest	Total
2006-07	\$ 10,000	\$ 23,500	\$ 33,500
2007-08	10,000	23,000	33,000
2008-09	15,000	22,500	37,500
2009-10	15,000	21,875	36,875
2010-11	15,000	21,125	36,125
2011-12	15,000	20,375	35,375
2012-13	15,000	19,625	34,625
2013-14	15,000	18,875	33,875
2014-15	20,000	18,125	38,125
2015-16	20,000	17,250	37,250
2016-17	20,000	16,250	36,250
2017-18	20,000	15,250	35,250
2018-23	120,000	60,125	180,125
2023-28	155,000	28,250	183,250
TOTALS	<u>\$ 465,000</u>	<u>\$ 326,125</u>	<u>\$ 791,125</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE I - LONG-TERM DEBT (Continued)**

1998 Building Authority Bonds: On March 19, 1998, the City of Hancock Building Authority authorized the issuance of general obligation bonds in the amount of \$1,048,000 to fund the construction of a new department of public works garage. The bond was issued in a single denomination of \$1,048,000 at an interest rate of 4.75% per annum with principal amounts payable April 1 and interest payable semi-annually on April 1 and October 1.

SCHEDULE OF 1998 BUILDING AUTHORITY BONDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 21,000	\$ 44,294	\$ 65,294
2007-08	23,000	43,296	66,296
2008-09	25,000	42,251	67,251
2009-10	26,000	41,111	67,111
2010-11	28,000	39,900	67,900
2011-12	29,000	38,618	67,618
2012-13	31,000	37,264	68,264
2013-14	32,000	35,839	67,839
2014-15	34,000	34,343	68,343
2015-16	36,000	32,775	68,775
2016-17	38,000	31,113	69,113
2017-18	41,000	29,355	70,355
2018-23	240,000	116,447	356,447
2023-28	318,000	55,813	373,813
<b>TOTALS</b>	<b>\$ 922,000</b>	<b>\$ 622,419</b>	<b>\$ 1,544,419</b>

U.S. Department of Agriculture Community Facilities Loans: On October 26, 2006, the City of Hancock was awarded a note of \$550,000 for the purpose of purchasing two fire trucks. The note was issued for \$550,000 at an Interest rate of 4.25% per annum with principal amounts payable October 1 and interest payable semi-annually on October 1 and April 1.

This note is subject to prepayment at any time prior to the dates on which principal and interest are due at the discretion of the City, upon seven days written notice to the USDA.

SCHEDULE OF USDA COMMUNITY FACILITIES LOAN

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 28,000	\$ 22,983	\$ 50,983
2007-08	28,000	21,782	49,782
2008-09	30,000	20,539	50,539
2009-10	31,000	19,231	50,231
2010-11	32,000	17,880	49,880
2011-12	33,000	16,487	49,487
2012-13	35,000	15,029	50,029
2013-14	35,000	13,528	48,528
2014-15	37,000	11,984	48,984
2015-16	39,000	10,355	49,355
2016-17	41,000	8,640	49,640
2017-18	43,000	6,839	49,839
2018-19	45,000	4,952	49,952
2019-20	46,000	3,001	49,001
2020-21	47,000	1,008	48,008
<b>TOTALS</b>	<b>\$ 550,000</b>	<b>\$ 194,238</b>	<b>\$ 744,238</b>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE I - LONG-TERM DEBT (Continued)**

**ENTERPRISE FUNDS**

**1997 Water Supply System Revenue Bond:** On November 5, 1997, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$1,320,000 for the purpose of constructing improvements to the City's water supply system. The bond was issued in a single denomination of \$1,320,000 at an interest rate of 4.5% per annum with principal amounts payable November 1 and interest payable semi-annually on November 1 and May 1. Principal installments are subject to prepayment prior to maturity, in inverse chronological order, at the Issuer's option, on any interest payment date on or after November 1, 2001, at par plus accrued interest to the date fixed for prepayment.

<u><b>1997 WATER SUPPLY SYSTEM REVENUE BONDS</b></u>			
<u><b>Year</b></u>	<u><b>Principal</b></u>	<u><b>Interest</b></u>	<u><b>Total</b></u>
2006-07	\$ 10,000	\$ 52,158	\$ 62,158
2007-08	18,000	51,730	69,730
2008-09	19,000	51,100	70,100
2009-10	20,000	50,268	70,268
2010-11	21,000	49,390	70,390
2011-12	22,000	48,468	70,468
2012-13	23,000	47,500	70,500
2013-14	24,000	46,488	70,488
2014-15	25,000	45,430	70,430
2015-16	26,000	44,328	70,328
2016-17	27,000	43,180	70,180
2017-18	29,000	41,988	70,988
2018-23	165,000	189,847	354,847
2023-28	210,000	149,750	359,750
2028-33	262,000	99,103	361,103
2033-38	253,562	35,889	289,451
<b>TOTALS</b>	<u><b>\$ 1,154,562</b></u>	<u><b>\$ 1,046,617</b></u>	<u><b>\$ 2,201,179</b></u>

**1998 Water Supply System Revenue Bond:** On October 20, 1998, the City of Hancock authorized the sale of a Water Supply System Revenue Bond in the amount of \$500,000 for the purpose of constructing a new water tower. The bond was issued in a single denomination of \$500,000 at an interest rate of 4.5% per annum with principal amounts payable May 1 and interest payable semi-annually on November 1 and May 1.

<u><b>SCHEDULE OF 1998 WATER SUPPLY SYSTEM REVENUE BONDS</b></u>			
<u><b>Year</b></u>	<u><b>Principal</b></u>	<u><b>Interest</b></u>	<u><b>Total</b></u>
2006-07	\$ 7,000	\$ 20,475	\$ 27,475
2007-08	7,000	20,160	27,160
2008-09	7,000	19,845	26,845
2009-10	8,000	19,530	27,530
2010-11	8,000	19,170	27,170
2011-12	8,000	18,810	26,810
2012-13	9,000	18,450	27,450
2013-14	9,000	18,045	27,045
2014-15	10,000	17,640	27,640
2015-16	10,000	17,190	27,190
2016-17	10,000	16,740	26,740
2017-18	11,000	16,290	27,290
2018-23	59,000	73,890	132,890
2023-28	77,000	59,085	136,085
2028-33	95,000	40,275	135,275
2033-38	120,000	16,650	136,650
<b>TOTALS</b>	<u><b>\$ 455,000</b></u>	<u><b>\$ 412,245</b></u>	<u><b>\$ 867,245</b></u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE I - LONG-TERM DEBT (Continued)**

Sanitary Sewage Disposal System Revenue Bonds: On September 16, 1976, the City of Hancock authorized the sale of Sanitary Sewage Disposal System Revenue Bonds in the amount of \$290,000. The bonds were issued in denominations of \$5,000 at an interest rate of 5% per annum with principal amounts payable January 1 and interest payable semi-annually on July 1 and January 1.

Bonds are subject to redemption prior to maturity, in inverse numerical order, at the option of the City, at par plus accrued interest to the date fixed for redemption.

<u>SANITARY SEWAGE DISPOSAL SYSTEM REVENUE BONDS</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 10,000	\$ 4,250	\$ 14,250
2007-08	10,000	3,750	13,750
2008-09	10,000	3,250	13,250
2009-10	10,000	2,750	12,750
2010-11	10,000	2,250	12,250
2011-12	10,000	1,750	11,750
2012-13	10,000	1,250	11,250
2013-14	15,000	750	15,750
TOTALS	<u>\$ 85,000</u>	<u>\$ 20,000</u>	<u>\$ 105,000</u>

INTERNAL SERVICE FUNDS

Installment Loans

<u>Purpose of Note</u>	<u>Date</u>	<u>Original</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance</u>	<u>Current Portion</u>
JD Grader 2001	02/01/01	\$ 137,506	02/01/07	5.95%	\$ 22,236	\$ 22,236
Street Sweeper	01/10/05	\$ 112,000	01/10/08	3.47%	\$ 32,334	\$ 15,891
Sander and Dump truck	10/01/04	\$ 161,496	09/30/10	3.6%	\$ 136,785	\$ 25,468
Cat Backhoe	08/17/05	\$ 44,345	08/17/09	4.3%	\$ 44,345	\$ 8,195

As of June 30, 2006, the aggregate maturities of loans payable are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 71,789	\$ 10,374	\$ 82,163
2007-08	51,372	5,754	57,126
2008-09	36,236	3,861	40,097
2009-10	46,999	2,069	49,068
2010-11	29,304	1,052	30,356
TOTALS	<u>\$ 235,700</u>	<u>\$ 23,110</u>	<u>\$ 258,810</u>



**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE I- LONG-TERM DEBT (Continued)**

Changes in long-term debt principal during 2005-06 are summarized below:

	Balance 06/30/05	Additions	Retired	Balance 06/30/06
<b>GOVERNMENTAL ACTIVITIES</b>				
Building Authority Bonds - 1997	\$ 475,000	\$ 0	\$ 10,000	\$ 465,000
Building Authority Bonds - 1998	943,000	0	21,000	922,000
USDA Community Facilities Loan	0	550,000	0	550,000
Fire Truck Note	19,475	0	19,475	0
	<u>1,437,475</u>	<u>550,000</u>	<u>50,475</u>	<u>1,937,000</u>
<b>ENTERPRISE FUNDS</b>				
Water System Bonds - 1997	1,163,562	0	9,000	1,154,562
Water System Bonds - 1998	462,000	0	7,000	455,000
Sewage Disposal Bonds - 1976	95,000	0	10,000	85,000
	<u>1,720,562</u>	<u>0</u>	<u>26,000</u>	<u>1,694,562</u>
<b>INTERNAL SERVICE FUND</b>				
Installment Loans	261,926	44,345	70,571	235,700
<b>TOTALS</b>	<u>\$ 3,419,963</u>	<u>\$ 594,345</u>	<u>\$ 147,046</u>	<u>\$ 3,867,262</u>

The aggregate amount of maturities on long-term debt by fund type for each of the next 5 years, and to maturity, is as follows:

<b>GOVERNMENTAL ACTIVITIES</b>			
Year	Principal	Interest	Total
2006-07	\$ 59,000	\$ 90,777	\$ 149,777
2007-08	61,000	88,078	149,078
2008-09	70,000	85,290	155,290
2009-10	72,000	82,217	154,217
2010-11	75,000	78,905	153,905
2011-12	77,000	75,480	152,480
2012-13	81,000	71,918	152,918
2013-14	82,000	68,242	150,242
2014-15	91,000	64,452	155,452
2015-16	95,000	60,380	155,380
2016-17	99,000	56,003	155,003
2017-18	104,000	51,444	155,444
2018-23	498,000	185,533	683,533
2023-28	473,000	84,063	557,063
<b>TOTALS</b>	<u>\$ 1,937,000</u>	<u>\$ 1,142,782</u>	<u>\$ 3,079,782</u>

<b>INTERNAL SERVICE FUNDS</b>			
Year	Principal	Interest	Total
2006-07	\$ 71,789	\$ 10,374	\$ 82,163
2007-08	51,372	5,754	57,126
2008-09	36,236	3,861	40,097
2009-10	46,999	2,069	49,068
2010-11	29,304	1,052	30,356
<b>TOTALS</b>	<u>\$ 235,700</u>	<u>\$ 23,110</u>	<u>\$ 258,810</u>

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE I- LONG-TERM DEBT (Continued)**

ENTERPRISE FUNDS

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-07	\$ 27,000	\$ 76,883	103,883
2007-08	35,000	75,640	110,640
2008-09	36,000	74,195	110,195
2009-10	38,000	72,548	110,548
2010-11	39,000	70,810	109,810
2011-12	40,000	69,028	109,028
2012-13	42,000	67,200	109,200
2013-14	48,000	65,283	113,283
2014-15	35,000	63,070	98,070
2015-16	36,000	61,518	97,518
2016-17	37,000	59,920	96,920
2017-18	40,000	58,278	98,278
2018-23	224,000	263,737	487,737
2023-28	287,000	208,835	495,835
2028-33	357,000	139,378	496,378
2023-28	373,562	52,539	426,101
<b>TOTALS</b>	<u><u>\$ 1,694,562</u></u>	<u><u>\$ 1,478,862</u></u>	<u><u>\$ 3,173,424</u></u>

**NOTE J - ENTERPRISE FUNDS**

SEGMENT INFORMATION

The City maintains four Enterprise Funds which provide water, sewer, parking, and transit services. Segment information for the year ended June 30, 2006 is as follows:

	<u>Parking Meter</u>	<u>Transit</u>	<u>Sewer</u>	<u>Water</u>
Operating revenues	\$ 10,544	\$ 108,324	\$ 628,588	\$ 521,189
Depreciation	\$ 0	\$ 17,639	\$ 99,395	\$ 106,432
Income (loss) from operations	\$ (9,864)	\$ (63,271)	\$ (28,826)	\$ (99,905)
Non-operating revenues	\$ 8,426	\$ 19,531	\$ 5,095	\$ 46,971
Non-operating expenses	\$ 0	\$ 0	\$ (4,750)	\$ (72,948)
Net Income (loss)	\$ (1,438)	\$ (43,740)	\$ (28,481)	\$ (125,882)
Property, plant & equipment				
Additions	\$ 0	\$ 0	\$ 0	\$ 0
Total assets	\$ 2,117	\$ 33,182	\$ 1,622,800	\$ 2,796,827
Net working capital surplus (deficit)	\$ (4,723)	\$ (34,936)	\$ 171,473	\$ (185,237)
Long-term liabilities:				
Payable from operating revenues	\$ 0	\$ 0	\$ 75,000	\$ 1,592,562
Total equity	\$ (4,723)	\$ 11,387	\$ 1,439,446	\$ 708,356
	<u>Parking Meter</u>	<u>Transit</u>	<u>Sewer</u>	<u>Water</u>
Net cash provided (used) by:				
Operating activities	\$ (10,249)	\$ (48,106)	\$ 6,409	\$ (30,399)
Noncapital financing activities	\$ 10,914	\$ 39,785	\$ (2,600)	\$ 127,429
Capital & related financing activities	\$ 0	\$ 0	\$ (14,750)	\$ (88,948)
Investing activities	\$ 41	\$ 170	\$ 870	\$ 1,411
Beginning cash	\$ 706	\$ 15,619	\$ 54,673	\$ 107,186
Ending cash	\$ 2,029	\$ 7,468	\$ 44,602	\$ 116,679

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE K - RESERVES AND RESTRICTED ASSETS**

The ordinance authorizing issuance of the 1997 and 1998 Water Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Bond Reserve Account - Quarterly transfers are to be made in the sum of at least \$2,480 per quarter, with the annual requirement equal to \$9,920 until there is accumulated in such fund the aggregate sum of \$131,700.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to ½ of the next interest payment due plus ¼ of the next principal payment due.

Repair and Replacement Account - Quarterly transfers are to be made in the sum of not less than \$2,843, with the annual requirement equal to \$11,370. When the balance in the Bond Reserve Account reaches \$131,700, the quarterly transfer will be increased to \$5,323.

At June 30, 2006, the City had established these accounts and had restricted cash, as required, as follows:

	Required 06/30/06	Amount Funded
Bond reserve account	\$ 69,440	\$ 69,440
Bond and interest redemption account	21,936	32,587
Repair & Replacement account	79,590	84,411
	<u>\$ 170,966</u>	<u>\$ 186,438</u>

**NOTE L - TRANSIT FUND**

The Transit fund receives grant revenue under Section 10e(4) of PA 51. These funds are to be used to pay for eligible operating expenses for public transportation. The Local Bus Operating Assistance revenue under Act 51 is disbursed to the City based on the amount of eligible operating expenses at the current reimbursement rate. The Local Audit Division of the Michigan Department of Treasury and the Bus Transit Division of MDOT administer the audit disclosures and compliance requirements.

**NOTE M - TAX INCREMENT FINANCING**

The City had three tax increment financing districts at June 30, 2006, the Downtown Development City(DDD), the Elevation Street City(ESD), and the MTEPS (Smart Zone) City. The taxes on the DDD and the ESD Citys are levied based on the increase of the state equalized value of the properties from the base year to the current year and are levied on both real and personal property. The DDD expanded the base year in 1993 from the 1984 initial base year. The tax revenues generated from the DDD and the ESD are recorded in the Downtown Development Authority Fund and Elevation Street TIFA Fund respectively.

On April 11, 2001, The Michigan Economic Development Corporation approved the application for a Smart Park that was submitted by the Michigan Tech Enterprise Smart Zone (MTEPS). The MTEPS is a partnership between Michigan Technological University, the City of Hancock and the City of Houghton. The MTEPS will be funded for the first 2 years by a state grant. Thereafter, it will be funded through a tax increment financing City which includes the entire Cities of Hancock and Houghton. The tax is levied annually with the school millage only and will continue until the year 2017. The Smart Zone TIF plan will not affect either City's current tax revenue. The tax revenue levied for the summer 2006 Smart Zone was collected and paid in full to the MTEPS as of June 30, 2006, via the Local Development Finance Authority – the financing entity.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

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**NOTE M - TAX INCREMENT FINANCING (Continued)**

Summary of TIF City data as of June 30, 2006:

	Downtown Development	TIF District Local Street (Elevation)	MTEPS
Base year	1984	1993	1999
State Equalized Value (SEV) base year			
Real property	\$ 9,460,400	\$ 143,000	\$ 46,361,834
Personal property	\$ 1,639,380	\$ 0	\$ 3,053,010
Current year SEV			
Real property	\$ 13,171,903	\$ 1,015,480	\$ 59,081,799
Personal property	\$ 1,645,345	\$ 102,219	\$ 4,361,780
Increase (Decrease) of taxable value			
Real	\$ 3,711,503	\$ 872,480	\$ 12,719,965
Personal property	\$ 5,965	\$ 102,219	\$ 1,308,770
Authorized tax mills levied	23.898	21.275	12.0000
Tax revenue collected	\$ 88,840	\$ 20,737	\$ 54,945

**NOTE N - PENSION PLAN**

**DEFINED BENEFIT PENSION PLAN**

*Plan Description:* The City contributes to the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public defined benefit employee retirement plan. The City adopted the plan on December 1, 2002, and transferred MERS member employees plan assets from the previous money purchase defined contribution plan to the new retirement system in January 2003. The new MERS system was also funded with employee retirement benefits accrued based on agreements from the prior money purchase plan but not deposited into the plan for the period January 2002 to November 2002. The MERS provides retirement, disability, and death benefits to plan members and beneficiaries. The plan covers all employees of the City, except those already covered by a union bargaining agreement or otherwise not qualified. Currently, 12 active members are enrolled. An employee is eligible for full retirement benefits after 8 years of credited service and age 60 is attained. The annual pension benefit at retirement is based on 2% of the employees Final Average Compensation (FAC) multiplied by the years and months of service. FAC is the average of the highest consecutive 5-year period of the employees' credited service. A month of service is credited if at least 80 hours are worked in that month. Retirement benefits vest after 8 years of service, and are not paid until the date retirement would have occurred had the member remained an employee.

MERS was created under Public Act 135 of 1945, as repealed and replaced by Public Act 427 of 1984. On August 15, 1996, pursuant to 1996 PA 220, MERS became an independent public non-profit corporation. Prior to that time MERS was a component unit of the State of Michigan. MERS is currently administered solely by a nine-member Retirement Board. A publicly available financial report that includes financial statements and required supplementary information is issued annually by MERS. The report may be obtained by writing to Municipal Employees' Retirement System of MI, 1134 Municipal Way, Lansing MI, 48917 or by calling 1-517-703-9030.

*Funding Policy:* Plan members are required to contribute 3.3% of their annual covered salary. The City is required to contribute at an actuarially determined rate. The current rate is 9.23% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the MERS Retirement Board.

**CITY OF HANCOCK**  
**NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2006**

**NOTE N - PENSION PLAN (Continued)**

*Annual Pension Cost:* For the year ended June 30, 2006, the City's required and actual pension cost was \$52,055. The annual required contribution percentage was determined as a part of the Initial Actuarial Valuation on January 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include a net investment rate of return on assets of 8 percent per year compounded annually, projected salary increases of 4.5 percent per year compounded annually due to inflation, and additional projected salary increases ranging from 0 to 4.5 percent per year depending on an age to reflect merit and longevity. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. Any unfunded actuarial liability is amortized by a level percent of payroll contributions over a period of 30 years.

Information trend comparison as required by GASB No. 27 and 25 is as follows:

<u>Fiscal Year Ended June 30</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual pension cost (APC)	\$ 52,055	\$ 49,509	\$ 48,147
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ 0	\$ 0	\$ 0

**DEFINED CONTRIBUTION PENSION UNION AGREEMENT**

The City provides pension benefits for all Teamster employees per the signed union bargaining agreement. For the year ending June 30, 2006, the City made weekly contributions of \$63 - \$69 to a defined contribution plan based on years of service. Contributions for Teamster employees are paid to the Central States Southeast & Southwest Areas Pension Fund. The Teamster employees are not required to contribute to the pension plan. The City does not administer the pension plan for Teamster employees and therefore has no liability beyond its monthly contributions.

**NOTE O - DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all government employees that enter into a joint agreement with the City, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be the property of the Plan's participants and are no longer subject to the City's general creditors. Because the City relies on a third party for investment and administration of the plan, the 457 plan assets are excluded from the financial statements.

**NOTE P - RESERVED FUND BALANCE**

The City has restricted cash and investment accounts that are restricted for specific future use as follows:

<u>General Fund</u>	<u>Other Funds</u>	<u>Enterprise Funds</u>
Dupee Shaft \$ 23,425	CDBG \$ 49,872	Cash
Main Street Local Pool 33,759	Debt Retirement 1,749	Sewer Fund \$ 12,970
Perry House 266	Subtotal 51,621	Water Fund 111,743
Civic Flowers 1,813		Investments
Parks Round Up 3,117	Employee benefits 3,612	Sewer Fund 134,194
Sister City 138		Water Fund 74,695
Maasto Hiihto 149		
<u>\$ 62,667</u>	<u>\$ 55,233</u>	<u>\$ 333,602</u>

The Cemetery Perpetual Care Trust balance of \$158,063 is reserved for the perpetual care payments.

**NOTE Q - DESIGNATED FUND BALANCE**

In 1981, funds of a Community Development Block Grant were used to establish a revolving commercial loan program to assist local businesses who have exhausted other means of obtaining credit. The balance in the General Fund's Main Street Loan Pool of \$33,759 represents the cash balance of the commercial loan program. As of June 30, 2006, there were no outstanding loan balances. The City provides these loans interest free.

**NOTE R - DEFICIT FUND BALANCE**

The financial statements for the Parking Meter Fund and the Transit Fund had cumulative fund deficits at June 30, 2006 of \$4,723 and \$11,387, respectively.

**NOTE S - SUBSEQUENT EVENTS**

Effective August 2, 2006 the City will assess a millage (.795) for a new fire truck. This will be assessed for the 2006-07 fiscal year.

On January 18, 2006, the City council accepted the MSHDA CDBG grant for \$425,800 for the downtown rental rehab improvements. As of August 2006 the City received \$90,860 as the first draw on these funds.

The City received a grant for the transit fund in the amount of \$103,996 for the purchase of 2 buses with lifts on July 24, 2006

**NOTE T - RELATED PARTY TRANSACTIONS**

The Portage Lake Water and Sewage Authority is a jointly governed organization consisting of five members, of which two are appointed by the respective City Councils of Houghton and Hancock, and the fifth member appointed by the other four members. The entity is not a component unit of the City. Further financial information is detailed in Note A of these financial statements. As of June 30, 2006, The Portage Lake Water and Sewage Authority owed the City \$8,473, and this amount is reflected on the Proprietary Funds Balance Sheet as an amount due from other governmental units.

**NOTE U - RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to carry commercial insurance for property, liability, wrongful acts, crime inland marine, and other risks of loss including worker's compensation and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION**

**CITY OF HANCOCK**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
Local sources	\$ 1,393,000	\$ 1,393,000	\$ 1,363,831	\$ (29,169)
State sources	505,664	505,664	512,071	6,407
Federal sources	-	-	85,000	85,000
TOTAL REVENUE	<u>1,898,664</u>	<u>1,898,664</u>	<u>1,960,902</u>	<u>62,238</u>
EXPENDITURES:				
General government				
Board/Legislative	13,416	13,416	12,665	751
Manager	94,312	94,312	87,411	6,901
Clerk	63,408	63,408	48,845	14,563
Treasurer	67,173	67,173	48,916	18,257
Legal, accounting, and audit	24,537	24,537	25,847	(1,310)
Assessor	26,687	26,687	26,974	(287)
Planning and professional services	4,853	4,853	14,695	(9,842)
Elections	10,568	10,568	8,437	2,131
Building and grounds	23,978	23,978	19,693	4,285
Cemetery	32,010	32,010	46,062	(14,052)
Public safety	652,355	652,355	1,334,793	(682,438)
Public works	163,679	163,679	175,298	(11,619)
Sanitation	294,971	294,971	295,095	(124)
Recreation and culture	134,267	134,267	117,343	16,924
Debt service	71,695	71,695	28,970	42,725
Inventory sand/Calcium	80,434	80,434	-	80,434
Other	62,459	62,459	81,882	(19,423)
TOTAL EXPENDITURES	<u>1,820,802</u>	<u>1,820,802</u>	<u>2,372,926</u>	<u>(552,124)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	77,862	77,862	(412,024)	(489,886)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	545,113	550,000	550,000	
Operating transfers out	<u>(148,757)</u>	<u>(148,757)</u>	<u>(174,226)</u>	<u>(25,469)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 474,218</u>	<u>\$ 479,105</u>	<u>(36,250)</u>	<u>\$ (515,355)</u>
FUND BALANCE - BEGINNING OF YEAR			<u>481,687</u>	
FUND BALANCE - END OF YEAR			<u>\$ 445,437</u>	



**CITY OF HANCOCK**  
**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**  
**For the Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(GAAP Basis)</u>	<u>Final to Actual</u>
REVENUES:				
State and federal	\$ 460,626	\$ 460,626	\$ 466,522	\$ 5,896
Interest	1,183	1,183	985	(198)
Other revenue	-	-	12,516	12,516
	<u>461,809</u>	<u>461,809</u>	<u>480,023</u>	<u>18,214</u>
TOTAL REVENUE				
EXPENDITURES:				
General government administration	17,924	17,924	25,631	(7,707)
Highway and streets:				
Construction	47,064	47,064	29,406	17,658
State trunkline maintenance	199,412	199,412	219,533	(20,121)
Routine maintenance	40,699	40,699	45,365	(4,666)
Traffic services	2,663	2,663	20,692	(18,029)
Snow and ice control	123,285	123,285	115,245	8,040
Sweeping and flushing	7,254	7,254	433	6,821
	<u>438,301</u>	<u>438,301</u>	<u>456,305</u>	<u>(18,004)</u>
TOTAL EXPENDITURES				
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	23,508	23,508	23,718	210
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	28,263	
Operating transfers out	(20,670)	(20,670)	-	20,670
	<u>2,838</u>	<u>2,838</u>	<u>51,981</u>	<u>20,880</u>
NET CHANGE IN FUND BALANCE				
FUND BALANCE - BEGINNING OF YEAR			(28,265)	
FUND BALANCE - END OF YEAR			<u>\$ 23,716</u>	

**SUPPLEMENTAL FINANCIAL INFORMATION**

**CITY OF HANCOCK**  
**GENERAL FUND**  
**BALANCE SHEETS**  
**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash and cash equivalents	\$ 67,530	\$ 93,598
Investments	24,472	35,753
Receivables		
Delinquent taxes	39,693	3,878
Service customers (includes unbilled)	17,478	14,595
Other	41,321	27,784
Due from other funds	330,478	319,575
Due from government units	60,396	92,892
Prepaid Expenses	33,622	36,036
Inventory	14,142	21,456
Restricted cash	62,667	66,715
TOTAL ASSETS	<u>\$ 691,799</u>	<u>\$ 712,282</u>
LIABILITIES:		
Accounts payable	\$ 20,088	\$ 53,605
Accrued expenses	11,642	34,374
Due to other funds	150,204	79,949
Due to fiduciary funds	1,761	1,761
TOTAL LIABILITIES	<u>183,695</u>	<u>169,689</u>
FUND BALANCES:		
Reserved	62,667	-
Unreserved	445,437	544,354
TOTAL FUND BALANCES	<u>508,104</u>	<u>544,354</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 691,799</u>	<u>\$ 714,043</u>

**CITY OF HANCOCK**  
**GENERAL FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

REVENUES:	BUDGET	ACTUAL	VARIANCE	2005
Current taxes:				
Property taxes	\$ 809,597	\$ 758,433	\$ 51,164	\$ 732,217
Personal property taxes	58,211	53,732	4,479	53,076
Penalties & interest on tax	2,366	3,966	(1,600)	8,069
Payments in lieu of tax	17,742	14,731	3,011	16,725
Tax administration fees	32,812	32,427	385	31,373
Total current taxes	920,728	863,289	57,439	841,460
State and federal revenue:				
DNR grant	-	5,700	(5,700)	6,409
Federal Grant	-	85,000	(85,000)	-
Police training	1,419	921	498	2,805
USDA Grant	-	-	-	2,669
Sales tax	499,961	501,101	(1,140)	477,316
Liquor tax	4,284	4,349	(65)	4,369
Total state and federal revenue	505,664	597,071	(91,407)	493,568
Charges for services:				
Vault service	2,366	2,195	171	2,890
Burial open and close	11,828	10,685	1,143	12,510
Garbage collection	174,000	160,130	13,870	162,613
Campground revenue	60,300	60,852	(552)	61,760
Beach rental fees	355	1,075	(720)	725
Other charges	103,619	99,001	4,618	99,136
Cemetery lots	7,254	2,725	4,529	2,250
Total charges for services	359,722	336,663	23,059	341,884
Fines, forfeitures and penalties	3,000	1,988	1,012	2,310
Rentals:				
Interest income	4,776	13,038	(8,262)	4,778
Cemetery interest	2,129	612	1,517	378
Land rents	473	2,285	(1,812)	2,105
Office rental	9,013	7,620	1,393	7,620
Total Rentals	16,391	23,555	(7,164)	14,881
Other revenue:				
Sale of assets	60,000	80,773	(20,773)	2,449
Parks Round-up contributions	237	73	164	120
Sand and salt sales	-	693	(693)	585
Cable franchise fee	18,500	28,580	(10,080)	18,276
Reimbursement	8,000	6,906	1,094	-
Licenses and permits	6,304	10,000	(3,696)	10,050
Miscellaneous	118	11,311	(11,193)	5,326
Total other revenue	93,159	138,336	(45,177)	36,806
TOTAL REVENUES	1,898,664	1,960,902	(62,238)	1,730,909

**CITY OF HANCOCK**  
**GENERAL FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
EXPENDITURES:				
General government administration:				
Legislative	11,981	11,729	252	14,755
City manager	94,312	87,411	6,901	88,101
Planning and professional services	4,853	14,695	(9,842)	6,062
Clerk	63,408	48,845	14,563	55,416
Treasurer	67,173	48,916	18,257	49,906
Attorney	9,462	11,990	(2,528)	3,440
Assessor	26,687	26,974	(287)	24,771
Elections	10,568	8,437	2,131	12,068
Accounting and computer services	15,075	13,857	1,218	13,585
Board of review	1,435	936	499	711
Building and grounds	23,978	19,693	4,285	22,845
Cemetery	32,010	46,062	(14,052)	25,671
Total general government administration	<u>360,942</u>	<u>339,545</u>	<u>21,397</u>	<u>317,331</u>
Public safety:				
Police	574,240	604,414	(30,174)	561,367
Fire	64,855	717,879	(653,024)	63,288
Protective inspections	13,260	12,500	760	12,722
Total public safety	<u>652,355</u>	<u>1,334,793</u>	<u>(682,438)</u>	<u>637,377</u>
Public works:				
Department of public works	82,984	105,442	(22,458)	95,825
Winter maintenance	3,056	690		1,574
Equipment rental-street lighting	68,000	65,422	2,578	73,695
Sidewalks and curbs	9,639	3,744	5,895	1,010
Total public works	<u>163,679</u>	<u>175,298</u>	<u>(11,619)</u>	<u>172,104</u>
Sanitation:				
Garbage collection	156,864	169,276	(12,412)	148,593
Landfill	109,932	89,415	20,517	93,424
Spring and fall cleanup	28,175	36,404	(8,229)	34,020
Total sanitation	<u>294,971</u>	<u>295,095</u>	<u>(124)</u>	<u>276,037</u>
Culture and recreation:				
Parks	41,777	37,972	3,805	42,657
Water front development	551	1,978	(1,427)	139
Beach	20,985	8,411	12,574	8,816
Campground	56,172	60,508	(4,336)	50,403
Ski trails	7,804	2,705	5,099	4,417
Skating rinks	6,978	5,769	1,209	7,462
Total culture and recreation	<u>134,267</u>	<u>117,343</u>	<u>16,924</u>	<u>113,894</u>

**CITY OF HANCOCK**  
**GENERAL FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (CONTINUED)**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
Debt Service	<u>71,695</u>	<u>28,970</u>	<u>42,725</u>	<u>20,480</u>
Inventory sand/calcium	<u>80,434</u>	<u>-</u>	<u>80,434</u>	<u>-</u>
Other:				
Community promotion	<u>27,789</u>	<u>45,312</u>	<u>(17,523)</u>	<u>35,963</u>
Insurance	<u>34,670</u>	<u>36,570</u>	<u>(1,900)</u>	<u>35,270</u>
Total other	<u>62,459</u>	<u>81,882</u>	<u>(19,423)</u>	<u>71,233</u>
TOTAL EXPENDITURES	<u>1,820,802</u>	<u>2,372,926</u>	<u>(552,124)</u>	<u>1,608,456</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>77,862</u>	<u>(412,024)</u>	<u>489,886</u>	<u>122,453</u>
OTHER FINANCING SOURCES (USES):				
Loan proceeds	<u>550,000</u>	<u>550,000</u>	<u>-</u>	<u>40</u>
Operating transfers out	<u>(148,757)</u>	<u>(174,226)</u>	<u>25,469</u>	<u>(97,836)</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>401,243</u>	<u>375,774</u>	<u>25,469</u>	<u>(97,796)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 479,105</u>	<u>(36,250)</u>	<u>\$ 515,355</u>	<u>24,657</u>
FUND BALANCE, BEGINNING OF YEAR		<u>544,354</u>		<u>519,697</u>
FUND BALANCE, END OF YEAR		<u>\$ 508,104</u>		<u>\$ 544,354</u>

**CITY OF HANCOCK**  
**SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEETS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	Major Street	Local Street	Community Development Block Grant	CDBG MSC-97-657 HO	Elevation Street TIF	Totals (Memorandum Only)
						2006 2005
<b>ASSETS:</b>						
Cash and cash equivalents	\$ 25,527	\$ 10,127	\$ 49,872	\$ -	\$ 26,951	\$ 112,477 \$ 86,568
Taxes receivable	-	86,222	-	-	45	86,267 45
Due from other funds	-	65,614	-	-	39,000	104,614 50,640
Due from other governmental units	42,610	16,849	45,915	-	-	105,374 88,976
Total assets	\$ 68,137	\$ 178,812	\$ 95,787	\$ -	\$ 65,996	\$ 408,732 \$ 226,229
<b>LIABILITIES:</b>						
Accounts payable	\$ 4,367	\$ 941	\$ -	\$ -	\$ -	\$ 5,308 \$ 7,367
Accrued expenses	1,817	591	-	-	-	2,408 5,820
Due to other funds	38,237	177,280	-	-	-	215,517 191,019
Total liabilities	44,421	178,812	-	-	-	223,233 204,206
<b>FUND EQUITY:</b>						
Fund Balance - Unreserved	23,716	-	95,787	-	65,996	185,499 (50,410)
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	\$ 68,137	\$ 178,812	\$ 95,787	\$ -	\$ 65,996	\$ 408,732 \$ 153,796

**CITY OF HANCOCK**  
**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**

**June 30, 2006**

	Major Street	Local Street	Community Development Block Grant	CDBG MSC-97-567 HO	Elevation Street TIF	Totals (Memorandum Only)
						2006
						2005
<b>REVENUES:</b>						
Current taxes	\$ -	\$ 86,222	\$ -	\$ -	\$ 20,737	\$ 104,096
State and Federal revenue	466,522	172,661	65,115	-	-	1,033,128
Interest	985	412	-	-	57	889
Other revenue	12,516	590	65,450	-	-	20,828
Total revenues	480,023	259,885	130,565	-	20,794	1,158,941
<b>EXPENDITURES:</b>						
General government administration	25,631	6,445	-	-	14,316	58,094
Highway and streets:						
Construction	29,406	2,585	-	-	-	52,149
State trunkline maintenance	219,533	-	-	-	-	226,837
Routine maintenance	45,365	94,990	-	-	-	163,674
Traffic services	20,692	6,136	-	-	-	6,965
Snow and ice control	115,245	212,377	-	-	-	355,161
Sweeping and flushing	433	2,966	-	-	-	2,807
State grant expenditures	-	-	35,270	-	-	490,028
Total expenditures	456,305	325,499	35,270	-	14,316	1,355,715
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	23,718	(65,614)	95,295	-	6,478	(196,774)
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in	28,263	74,844	52	-	-	99,601
Operating transfers out	-	-	-	(52)	-	(20,265)
Total other financing sources (uses)	28,263	74,844	(52)	52	-	79,336



**CITY OF HANCOCK**  
**SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES (Continued)**

June 30, 2006

	Major Street	Local Street	Community Development Block Grant	CDBG MSC-97-567 HO	Elevation Street TIF	Totals (Memorandum Only)
						2006 2005
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	51,981	9,230	95,347	(52)	6,478	162,984 (117,438)
FUND BALANCE, BEGINNING OF YEAR	(28,265)	(9,230)	440	52	59,518	22,515 67,028
FUND BALANCE, END OF YEAR	\$ 23,716	\$ -	\$ 95,787	\$ -	\$ 65,996	\$ 185,499 \$ (50,410)

**CITY OF HANCOCK**  
**MAJOR STREET FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
State and federal	\$ 460,626	\$ 466,522	\$ (5,896)	\$ 468,519
Interest	1,183	985	198	491
Other revenue	-	12,516	(12,516)	-
TOTAL REVENUES	<u>461,809</u>	<u>480,023</u>	<u>(18,214)</u>	<u>469,010</u>
EXPENDITURES:				
General government administration	<u>17,924</u>	<u>25,631</u>	<u>(7,707)</u>	<u>33,790</u>
Highway and streets:				
Construction	47,064	29,406	17,658	27,930
State trunkline maintenance	199,412	219,533	(20,121)	226,837
Routine maintenance	40,699	45,365	(4,666)	40,396
Traffic services	2,663	20,692	(18,029)	3,377
Snow and ice control	123,285	115,245	8,040	154,823
Sweeping and flushing	<u>7,254</u>	<u>433</u>	<u>6,821</u>	<u>1,279</u>
Total highway and streets	<u>420,377</u>	<u>430,674</u>	<u>(10,297)</u>	<u>454,642</u>
TOTAL EXPENDITURES	<u>438,301</u>	<u>456,305</u>	<u>(18,004)</u>	<u>488,432</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>23,508</u>	<u>23,718</u>	<u>(210)</u>	<u>(19,422)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	28,263	(28,263)	-
Operating transfers out	<u>(20,670)</u>	<u>-</u>	<u>20,670</u>	<u>(20,265)</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>(20,670)</u>	<u>28,263</u>	<u>(48,933)</u>	<u>(20,265)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 2,838</u>	51,981	<u>\$ (49,143)</u>	(39,687)
FUND BALANCE, BEGINNING OF YEAR		<u>(28,265)</u>		<u>11,422</u>
FUND BALANCE, END OF YEAR		<u>\$ 23,716</u>		<u>\$ (28,265)</u>

**CITY OF HANCOCK**  
**LOCAL STREET FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Taxes	\$ 90,000	\$ 86,222	\$ 3,778	\$ 83,859
State and federal	-	172,661	(172,661)	167,842
Income revenue	-	412	(412)	345
Other revenue	237	590	(353)	-
TOTAL REVENUES	<u>90,237</u>	<u>259,885</u>	<u>(169,648)</u>	<u>252,046</u>
EXPENDITURES:				
General government administration	<u>5,822</u>	<u>6,445</u>	<u>(623)</u>	<u>6,589</u>
Highway and streets:				
Construction	57,408	2,585	54,823	24,219
Routine maintenance	94,990	94,990	-	123,278
Traffic services	1,972	6,136	(4,164)	3,588
Snow and ice control	160,586	212,377	(51,791)	200,338
Sweeping and flushing	<u>10,802</u>	<u>2,966</u>	<u>7,836</u>	<u>1,528</u>
Total highway and streets	<u>325,758</u>	<u>319,054</u>	<u>6,704</u>	<u>352,951</u>
TOTAL EXPENDITURES	<u>331,580</u>	<u>325,499</u>	<u>6,081</u>	<u>359,540</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(241,343)</u>	<u>(65,614)</u>	<u>(175,729)</u>	<u>(107,494)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	<u>101,593</u>	<u>74,844</u>	<u>26,749</u>	<u>99,601</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>101,593</u>	<u>74,844</u>	<u>26,749</u>	<u>99,601</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (139,750)</u>	9,230	<u>\$ (148,980)</u>	(7,893)
FUND BALANCE, BEGINNING OF YEAR		<u>(9,230)</u>		<u>(1,337)</u>
FUND BALANCE, END OF YEAR		<u>\$ -</u>		<u>\$ (9,230)</u>

**CITY OF HANCOCK**  
**COMMUNITY DEVELOPMENT BLOCK GRANT FUND-M2000-0657 (NPP)**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>Budget</u>	<u>2006</u>	<u>Variance</u>	<u>2005</u>
REVENUES:				
Federal grant	\$ 107,161	\$ 65,115	\$ 42,046	\$ 360,000
Other revenue	-	65,450	(65,450)	15,207
TOTAL REVENUES	<u>107,161</u>	<u>130,565</u>	<u>(23404)</u>	<u>375,207</u>
EXPENDITURES:				
Administration	21,432	19,252	2,180	382,019
Construction	85,729	16,018	69,711	-
TOTAL EXPENDITURES	<u>107,161</u>	<u>35,270</u>	<u>71,891</u>	<u>382,019</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>95,295</u>	<u>(95,295)</u>	<u>(6,812)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	52	(52)	-
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>52</u>	<u>(52)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>95,347</u>	<u>\$ (95,347)</u>	<u>(6,812)</u>
FUND BALANCE, BEGINNING OF YEAR		<u>440</u>		<u>7,252</u>
FUND BALANCE, END OF YEAR		<u>\$ 95,787</u>		<u>\$ 440</u>

**CITY OF HANCOCK**  
**COMMUNITY DEVELOPMENT BLOCK GRANT FUND-M2002-0657 (HO)**  
**SCHEDULES OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCE**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>2006</u>	<u>2005</u>
REVENUES:		
Federal grant	\$ -	\$ 36,767
Other revenue	<u>-</u>	<u>5,621</u>
TOTAL REVENUES	<u>-</u>	<u>42,388</u>
EXPENDITURES:		
Administration	-	9,247
Construction	<u>-</u>	<u>98,762</u>
TOTAL EXPENDITURES	<u>-</u>	<u>108,009</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(65,621)</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers out	<u>(52)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>(52)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(52)	(65,621)
FUND BALANCE, BEGINNING OF YEAR	<u>52</u>	<u>65,673</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ 52</u>

**CITY OF HANCOCK**  
**ELEVATION STREET TIFA**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Taxes	\$ 23,135	\$ 20,737	\$ 2,398	\$ 20,237
Interest	<u>696</u>	<u>57</u>	<u>639</u>	<u>53</u>
TOTAL REVENUES	<u>23,831</u>	<u>20,794</u>	<u>3,037</u>	<u>20,290</u>
EXPENDITURES:				
General government administration	<u>20,349</u>	<u>14,316</u>	<u>6,033</u>	<u>17,715</u>
TOTAL EXPENDITURES	<u>20,349</u>	<u>14,316</u>	<u>6,033</u>	<u>17,715</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 3,482</u>	6,478	<u>\$ (2,996)</u>	<u>-</u>
FUND BALANCE, BEGINNING OF YEAR		<u>59,518</u>		<u>56,943</u>
FUND BALANCE, END OF YEAR		<u>\$ 65,996</u>		<u>\$ 56,943</u>

**CITY OF HANCOCK**  
**DEBT SERVICE (BUILDING AUTHORITY) FUND**  
**BALANCE SHEETS**

**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash	\$ <u>1,749</u>	\$ <u>1,732</u>
 FUND BALANCES:		
Reserved	\$ <u>1,749</u>	\$ <u>1,732</u>

**CITY OF HANCOCK**  
**DEBT SERVICE (BUILDING AUTHORITY) FUND**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Rental income	\$ 102,708	\$ 98,706	\$ 4,002	\$ 99,142
Interest income	237	16	221	29
TOTAL REVENUES	<u>102,945</u>	<u>98,722</u>	<u>4,223</u>	<u>99,171</u>
EXPENDITURES:				
Bond principal	30,600	31,000	(400)	30,000
Bond interest and other expense	72,312	67,705	4,607	69,142
Miscellaneous	-	-	-	6,038
TOTAL EXPENDITURES	<u>102,912</u>	<u>98,705</u>	<u>4,207</u>	<u>105,180</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 33</u>	17	<u>\$ 16</u>	(6,009)
FUND BALANCE, BEGINNING OF YEAR		<u>1,732</u>		<u>7,741</u>
FUND BALANCE, END OF YEAR		<u>\$ 1,749</u>		<u>\$ 1,732</u>



**CITY OF HANCOCK**  
**RESIDENTIAL CAPITAL PROJECTS**  
**BALANCE SHEETS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Cash	\$ <u>34,977</u>	\$ <u>19,676</u>
TOTAL ASSETS	<u>\$ 34,977</u>	<u>\$ 19,676</u>
LIABILITIES:		
Accounts payable	\$ <u>1,775</u>	\$ <u>-</u>
TOTAL LIABILITIES	<u>1,775</u>	<u>-</u>
FUND BALANCES:		
Unreserved	<u>33,202</u>	<u>19,676</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 34,977</u>	<u>\$ 19,676</u>

**CITY OF HANCOCK**  
**RESIDENTIAL CAPITAL PROJECTS**  
**SCHEDULES OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

**Year Ended June 30, 2006**

**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
REVENUES:				
Other revenue:				
Lot sales	\$ 80,000	\$ 50,051	\$ 29,949	\$ 37,760
Interest	<u>237</u>	<u>214</u>	<u>23</u>	<u>132</u>
TOTAL REVENUES	<u>80,237</u>	<u>50,265</u>	<u>29,972</u>	<u>37,892</u>
EXPENDITURES:				
General government administration	-	2,125	(2,125)	274
Construction	<u>76,745</u>	<u>34,614</u>	<u>42,131</u>	<u>6,361</u>
TOTAL EXPENDITURES	<u>76,745</u>	<u>36,739</u>	<u>40,006</u>	<u>6,635</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>3,492</u>	<u>13,526</u>	<u>(10,034)</u>	<u>31,257</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,904)</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,904)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 3,492</u>	13,526	<u>\$ (10,034)</u>	14,353
FUND BALANCE, BEGINNING OF YEAR		<u>19,676</u>		<u>5,323</u>
FUND BALANCE, END OF YEAR		<u>\$ 33,202</u>		<u>\$ 19,676</u>

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**BALANCE SHEETS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)
					2006 2005
ASSETS:					
Current assets:					
Cash and cash equivalents	\$ 2,029	\$ 7,468	\$ 31,632	\$ 4,936	\$ 75,186
Investments	-	-	-	-	24,683
Restricted cash	-	-	12,970	111,743	103,615
Restricted investments	-	-	134,194	74,695	177,794
Accounts receivable	80	64	69,517	59,943	103,878
Due from other funds	8	-	-	-	8
Due from other government	-	-	8,473	-	8,473
Inventory	-	-	23,041	52,215	79,677
Prepaid expenses	-	2,101	-	650	2,251
Total current assets	2,117	9,633	279,827	304,182	567,084
Property, plant, and equipment	30,893	89,117	5,787,904	5,681,268	11,589,181
Accumulated depreciation & amortization	(30,893)	(65,568)	(4,444,931)	(3,188,623)	(7,506,549)
	-	23,549	1,342,973	2,492,645	4,082,632
TOTAL ASSETS	\$ 2,117	\$ 33,182	\$ 1,622,800	\$ 2,796,827	\$ 4,454,926
					\$ 4,649,716

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**BALANCE SHEETS (CONTINUED)**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)	
					2006	2005
LIABILITIES:						
Current liabilities:						
Accounts payable	\$ -	\$ 2,707	\$ 2,816	\$ 2,700	\$ 8,223	\$ 14,025
Accrued expenses	170	1,438	535	895	3,038	12,979
Due to other funds	6,670	40,424	95,003	454,808	596,905	492,496
Due to other governmental units	-	-	-	14,016	14,016	71,931
Current maturities on long term debt	-	-	10,000	17,000	27,000	26,000
Total current liabilities	6,840	44,569	108,354	489,419	649,182	617,431
Long-term liabilities:						
Bonds payable	-	-	75,000	1,592,562	1,667,562	1,694,562
TOTAL LIABILITIES	6,840	44,569	183,354	2,081,981	2,316,744	2,311,993
FUND EQUITY:						
Contributed capital	-	-	1,353,346	556,838	1,910,184	1,916,674
Retained earnings:						
Reserved	-	-	147,164	186,438	333,602	-
Unreserved	(4,723)	(11,387)	(61,064)	(28,430)	(105,604)	421,049
Total retained earnings	(4,723)	(11,387)	86,100	158,008	227,998	421,049
TOTAL FUND EQUITY	(4,723)	(11,387)	1,439,446	714,846	2,138,182	2,337,723
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,117	\$ 33,182	\$ 1,622,800	\$ 2,796,827	\$ 4,454,926	\$ 4,649,716

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS**

**June 30, 2006**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only) 2006 2005
<b>OPERATING REVENUES:</b>					
Sales and charges for services	\$ 10,544	\$ 27,746	\$ 628,587	\$ 519,744	\$ 1,186,621 \$ 1,168,185
State Grant	-	51,850	-	-	51,850 54,922
Federal Grant	-	27,230	-	-	27,230 9,111
Other revenue	-	1,498	1	1,445	2,944 35,722
<b>TOTAL OPERATING REVENUES</b>	<b>10,544</b>	<b>108,324</b>	<b>628,588</b>	<b>521,189</b>	<b>1,268,645 1,267,940</b>
<b>OPERATING EXPENSES:</b>					
General administration	20,408	15,935	33,588	72,805	142,736 124,469
Meter reading	-	-	8,998	9,011	18,009 19,428
Purchase of Water	-	-	-	179,539	179,539 159,690
Operations and maintenance	-	138,021	105,682	253,307	497,010 544,243
Share of Portage Lake W & S Auth plant expense	-	-	409,751	-	409,751 465,801
Depreciation	-	17,639	99,395	106,432	223,466 222,281
<b>TOTAL OPERATING EXPENSES</b>	<b>20,408</b>	<b>171,595</b>	<b>657,414</b>	<b>621,094</b>	<b>1,470,511 1,535,912</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(9,864)</b>	<b>(63,271)</b>	<b>(28,826)</b>	<b>(99,905)</b>	<b>(201,866) (267,972)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Interest income	41	170	5,095	3,598	8,904 4,863
Interest expense	-	-	(4,750)	(72,948)	(77,698) (78,850)
Operating transfers in	8,385	19,361	-	43,373	71,119 35,404
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>8,426</b>	<b>19,531</b>	<b>345</b>	<b>(25,977)</b>	<b>2,325 (38,583)</b>
<b>NET INCOME (LOSS)</b>	<b>(1,438)</b>	<b>(43,740)</b>	<b>(28,481)</b>	<b>(125,882)</b>	<b>(199,541) (306,555)</b>

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS**  
**(CONTINUED)**

**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	Parking Meter	Transit	Sewer Disposal System	Water Supply System	Totals (Memorandum Only)
					2006      2005
RETAINED EARNINGS (DEFICIT), BEGINNING OF THE YEAR	(3,285)	32,353	114,581	277,400	421,049      721,114
ADJUSTMENTS TO FUND EQUITY:					
Add depreciation on fixed assets	-	-	-	6,490	6,490      6,490
acquired with contributed capital					
RETAINED EARNINGS (DEFICIT), END OF YEAR	\$ (4,723)	\$ (11,387)	\$ 86,100	\$ 158,008	\$ 227,998      \$ 421,049

**CITY OF HANCOCK**  
**ENTERPRISE FUNDS**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2006**

	Parking Meter Fund	Transit Fund	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 10,536	\$ 106,885	\$ 614,502	\$ 508,044	\$ 731,923
Payments to suppliers	839	(48,137)	(497,574)	(300,667)	(544,872)
Internal activity -- receipts (payments) to other funds	(8,316)	(25,425)	(60,194)	(135,653)	(93,935)
Payments to employees	(13,308)	(82,927)	(50,325)	(103,568)	(146,560)
Other receipts (payments)	0	1,498	0	1,445	1,498
Net cash provided by operating activities	<u>(10,249)</u>	<u>(48,106)</u>	<u>6,409</u>	<u>(30,399)</u>	<u>(51,946)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating subsidies and transfers to other funds	<u>10,914</u>	<u>39,785</u>	<u>(2,600)</u>	<u>127,429</u>	<u>48,099</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Capital contributions	0	0	0	0	0
Purchases of capital assets	0	0	0	0	0
Sale of capital assets	0	0	0	0	0
Principal paid on capital debt	0	0	(10,000)	(16,000)	(10,000)
Interest paid on capital debt	0	0	(4,750)	(72,948)	(4,750)
Net cash (used) by capital and related financing activities	<u>0</u>	<u>0</u>	<u>(14,750)</u>	<u>(88,948)</u>	<u>(14,750)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of investments	0	0	(4,225)	(2,187)	(4,225)
Interest and dividends	41	170	5,095	3,598	5,306
Net cash provided by investing activities	<u>41</u>	<u>170</u>	<u>870</u>	<u>1,411</u>	<u>1,081</u>
Net (decrease) in cash and cash equivalents	<u>706</u>	<u>(8,151)</u>	<u>(10,071)</u>	<u>9,493</u>	<u>(17,516)</u>
Balances -- beginning of the year	<u>1,323</u>	<u>15,619</u>	<u>54,673</u>	<u>107,186</u>	<u>71,615</u>
Balances -- end of the year	<u>\$ 2,029</u>	<u>\$ 7,468</u>	<u>\$ 44,602</u>	<u>\$ 116,679</u>	<u>\$ 54,099</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (9,864)	\$ (63,271)	\$ (28,826)	\$ (99,905)	(101,961)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>					
Depreciation expense	0	17,639	99,395	106,432	117,034
<b>Change in assets and liabilities</b>					
Receivables, net	(8)	58	(14,086)	(11,699)	(14,036)
Due from other governmental units	0	0	(8,473)	0	(8,473)
Inventory	0	0	6,304	(1,883)	6,304
Prepaid expenses	0	150		(650)	150
Accounts and other payables	0	169	(1,863)	(4,109)	(1,694)
Due to other governmental	0	0	(44,754)	(13,161)	(44,754)
Accrued expenses	(377)	(2,851)	(1,288)	(5,424)	(4,516)
Net cash provided by operating activities	<u>\$ (10,249)</u>	<u>\$ (48,106)</u>	<u>\$ 6,409</u>	<u>\$ (30,399)</u>	<u>\$ (51,946)</u>

**CITY OF HANCOCK**  
**PARKING METER FUND**  
**BALANCE SHEETS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 2,029	\$ 1,323
Accounts receivable	88	80
Fixed Assets:		
Equipment	30,893	30,893
Less accumulated depreciation & amortization	<u>(30,893)</u>	<u>(30,893)</u>
 TOTAL ASSETS	 <u>\$ 2,117</u>	 <u>\$ 1,403</u>
 LIABILITIES:		
Current Liabilities:		
Accrued wages payable	\$ 170	\$ 547
Due to other funds	<u>6,670</u>	<u>4,141</u>
 TOTAL LIABILITIES	 <u>6,840</u>	 <u>4,688</u>
 FUND EQUITY:		
Retained Earnings	<u>(4,723)</u>	<u>(3,285)</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 2,117</u>	 <u>\$ 1,403</u>



**CITY OF HANCOCK**  
**PARKING METER FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Charges for services:	\$ 19,482	\$ 10,544	\$ 8,938	\$ 14,392
OPERATING EXPENSES:				
General administration	19,116	20,408	(1,292)	23,226
TOTAL OPERATING EXPENSES	19,116	20,408	(1,292)	23,226
OPERATING INCOME (LOSS)	366	(9,864)	10,230	(8,834)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	-	41	(41)	13
Operating transfers in	5,100	8,385	(3,285)	5,000
TOTAL NON-OPERATING REVENUES (EXPENSES)	5,100	8,426	(3,326)	5,013
NET INCOME (LOSS)	\$ 5,466	(1,438)	\$ 6,904	(3,821)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		(3,285)		536
RETAINED EARNINGS (DEFICIT), END OF YEAR		\$ (4,723)		\$ (3,285)

**CITY OF HANCOCK**  
**SEWER DISPOSAL SYSTEM FUND**  
**BALANCE SHEETS**  
**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
<b>ASSETS:</b>		
Current Assets		
Cash and cash equivalents	\$ 31,632	\$ 41,796
Investments	-	24,683
Accounts Receivable	69,517	55,431
Due from other government	8,473	-
Inventory	23,041	29,345
Restricted Assets:		
Investments	134,194	105,286
Cash	12,970	12,877
Fixed Assets:		
Utility plant in service	5,787,904	5,787,904
Less accumulated depreciation & amortization	<u>(4,444,931)</u>	<u>(4,345,536)</u>
<b>TOTAL ASSETS:</b>	<u><b>\$ 1,622,800</b></u>	<u><b>\$ 1,711,786</b></u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Accounts payable	\$ 2,816	\$ 4,679
Accrued expenses	535	1,823
Due to other funds	95,003	97,603
Due to other governmental units	-	44,754
Current maturities on long-term debt	10,000	10,000
Long-term Liabilities:		
Revenue bonds payable	<u>75,000</u>	<u>85,000</u>
<b>TOTAL LIABILITIES</b>	<u><b>183,354</b></u>	<u><b>243,859</b></u>
<b>FUND EQUITY:</b>		
Contributed capital	1,353,346	1,353,346
Retained Earnings:		
Reserved	147,164	-
Unreserved	<u>(61,064)</u>	<u>114,581</u>
<b>TOTAL FUND EQUITY</b>	<u><b>1,439,446</b></u>	<u><b>1,467,927</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$ 1,622,800</b></u>	<u><b>\$ 1,711,786</b></u>

**CITY OF HANCOCK**  
**SEWER DISPOSAL SYSTEM FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year ended June 30, 2006**  
**With Comparative Totals for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Charges for services	\$ 658,041	\$ 628,587	\$ 29,454	\$ 621,981
Other revenue	<u>118</u>	<u>1</u>	<u>117</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>658,159</u>	<u>628,588</u>	<u>29,571</u>	<u>621,981</u>
OPERATING EXPENSES:				
General administration	-	33,588	(33,588)	32,986
Meter reading	-	8,998	(8,998)	9,295
Operations and maintenace	-	105,682	(105,682)	131,275
Share of Portage Lake W & S Auth plant expense	-	409,751	(409,751)	465,801
Depreciation	<u>-</u>	<u>99,395</u>	<u>(99,395)</u>	<u>102,062</u>
TOTAL OPERATING EXPENSES	<u>-</u>	<u>657,414</u>	<u>(657,414)</u>	<u>741,419</u>
OPERATING INCOME (LOSS)	658,159	(28,826)	686,985	(119,438)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	4,080	5,095	(1,015)	1,461
Interest expense	-	(4,750)	4,750	(5,250)
Operating transfers out	-	-	-	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,452</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>4,080</u>	<u>345</u>	<u>3,735</u>	<u>4,663</u>
NET INCOME (LOSS)	<u>\$ 662,239</u>	<u>(28,481)</u>	<u>\$ 690,720</u>	<u>(114,775)</u>
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>114,581</u>		<u>229,356</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 86,100</u>		<u>\$ 114,581</u>

**CITY OF HANCOCK**  
**WATER SUPPLY SYSTEM FUND**  
**BALANCE SHEETS**  
**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 4,936	\$ 16,448
Accounts receivable	59,943	48,245
Inventory	52,215	50,332
Prepaid expenses	650	-
Restricted Assets:		
Restricted cash	111,743	90,738
Restricted investments	74,695	72,508
Fixed Assets:		
Property, plant, and equipment	5,681,268	5,681,267
Accumulated depreciation & amortization	<u>(3,188,623)</u>	<u>(3,082,192)</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,796,827</u></b>	<b><u>\$ 2,877,346</u></b>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 2,700	\$ 6,808
Accrued expenses	895	6,319
Due to other funds	454,808	370,752
Due to other governmental units	14,016	27,177
Current maturities on long term debt	17,000	16,000
Long-term liabilities:		
Revenue bonds payable	<u>1,592,562</u>	<u>1,609,562</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,081,981</u></b>	<b><u>2,036,618</u></b>
FUND EQUITY:		
Contributed capital	556,838	563,328
Retained Earnings:		
Reserved	186,438	-
Unreserved	<u>(28,430)</u>	<u>277,400</u>
<b>TOTAL FUND EQUITY</b>	<b><u>714,846</u></b>	<b><u>840,728</u></b>
<b>TOTAL FUND EQUITY</b>	<b><u>556,838</u></b>	<b><u>563,328</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 2,638,819</u></b>	<b><u>\$ 2,599,946</u></b>

**CITY OF HANCOCK**  
**WATER SUPPLY SYSTEM FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year Ended June 30, 2006**  
**With Comparative Actual Amounts for Year Ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Sales and charges for services	\$ 555,914	\$ 519,744	\$ 36,170	\$ 511,489
Other revenue	<u>1,183</u>	<u>1,445</u>	<u>(262)</u>	<u>5,165</u>
TOTAL OPERATING REVENUES	<u>557,097</u>	<u>521,189</u>	<u>35,908</u>	<u>516,654</u>
OPERATING EXPENSES:				
General administration	56,998	72,805	(15,807)	53,099
Meter reading	9,025	9,011	14	10,133
Purchase of Water	193,800	179,539	14,261	159,690
Operations and maintenance	203,887	253,307	(49,420)	306,680
Depreciation	<u>-</u>	<u>106,432</u>	<u>(106,432)</u>	<u>102,580</u>
TOTAL OPERATING EXPENSES	<u>463,710</u>	<u>621,094</u>	<u>(157,384)</u>	<u>632,182</u>
OPERATING INCOME (LOSS)	93,387	(99,905)	193,292	(115,528)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	1,500	3,598	(2,098)	3,287
Interest expense	(89,948)	(72,948)	(17,000)	(73,600)
Operating transfers in	<u>43,373</u>	<u>43,373</u>	<u>-</u>	<u>8,452</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(45,075)</u>	<u>(25,977)</u>	<u>(19,098)</u>	<u>(61,861)</u>
NET INCOME (LOSS)	<u>\$ 48,312</u>	(125,882)	<u>\$ 174,194</u>	(177,389)
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		277,400		448,299
ADJUSTMENTS TO FUND EQUITY:				
Add depreciation on fixed assets acquired with new capital		<u>6,490</u>		<u>6,490</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 158,008</u>		<u>\$ 277,400</u>

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**BALANCE SHEETS**  
**June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>2006</u>	<u>2005</u>
ASSETS:		
Current assets:		
Cash	\$ 7,468	\$ 15,619
Accounts receivable	64	122
Prepaid Expenses	2,101	2,251
Fixed Assets:		
Utility plant in service	89,117	89,117
Accumulated depreciation & amortization	<u>(65,568)</u>	<u>(47,928)</u>
TOTAL ASSETS	<u>\$ 33,182</u>	<u>\$ 59,181</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 2,707	\$ 2,538
Accrued expenses	1,438	4,290
Due to other funds	<u>40,424</u>	<u>20,000</u>
TOTAL LIABILITIES	<u>44,569</u>	<u>26,828</u>
FUND EQUITY:		
Retained earnings:	<u>(11,387)</u>	<u>32,353</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 33,182</u>	<u>\$ 59,181</u>

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year ended June 30, 2006**  
**With Comparative Totals at June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Sales and charges for services	\$ 18,000	\$ 27,746	\$ (9,746)	\$ 20,323
State grant	51,935	51,850	85	54,922
Federal grant	17,798	27,230	(9,432)	9,111
Other revenue	3,000	1,498	1,502	30,557
TOTAL OPERATING REVENUES	90,733	108,324	(17,591)	114,913
OPERATING EXPENSES:				
General administration	19,282	15,935	3,347	15,158
Operations and maintenance	115,862	138,021	(22,159)	106,288
Depreciation	-	17,639	(17,639)	17,639
TOTAL OPERATING EXPENSES	135,144	171,595	(36,451)	139,085
OPERATING INCOME (LOSS)	(44,411)	(63,271)	18,860	(24,172)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	50	170	(120)	102
Operating transfers in	19,361	19,361	-	13,500
TOTAL NON-OPERATING REVENUES (EXPENSES)	19,411	19,531	(120)	13,602
NET INCOME (LOSS)	<u>\$ (25,000)</u>	<u>(43,740)</u>	<u>\$ 18,740</u>	<u>(10,570)</u>
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>32,353</u>		<u>42,923</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ (11,387)</u>		<u>\$ 32,353</u>

**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING BALANCE SHEETS**

**June 30, 2006**

**With Comparative Totals at June 30, 2005**

	Employee Benefit	Motor Vehicle	Totals (Memorandum Only)	
			2006	2005
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 14,030	\$ 22,703	\$ 36,733	\$ 28,685
Restricted cash	3,612	-	3,612	5,535
Accounts receivable	16,249	1,142	17,391	24,658
Due from other funds	140,517	390,035	530,552	393,248
Inventory	-	13,354	13,354	13,354
Prepaid expenses	42,036	18,912	60,948	69,027
Total current assets	216,444	446,146	662,590	534,507
Fixed Assets:				
Equipment	-	1,610,670	1,610,670	1,832,614
Accumulated depreciation & amortization	-	(1,335,517)	(1,335,517)	(1,539,383)
Total Fixed Assets	-	275,153	275,153	293,231
<b>TOTAL ASSETS</b>	<b>\$ 216,444</b>	<b>\$ 721,299</b>	<b>\$ 937,743</b>	<b>\$ 827,738</b>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable	\$ 9,360	\$ 4,931	\$ 14,291	\$ 19,273
Due to other funds	-	3,026	3,026	-
Accrued sick and vacation	157,437	-	157,437	152,159
Accrued wages payable	6,809	276	7,085	14,470
Current maturities on long term debt	-	71,788	71,788	72,227
Total current liabilities	173,606	80,021	253,627	258,129
Long-term liabilities:				
Notes payable	-	163,912	163,912	189,700
<b>TOTAL LIABILITIES</b>	<b>173,606</b>	<b>243,933</b>	<b>417,539</b>	<b>447,829</b>
<b>FUND EQUITY:</b>				
Retained earnings:				
Reserved	3,612	-	3,612	5,535
Unreserved	39,226	477,366	516,592	374,374
Total retained earnings	42,838	477,366	520,204	379,909
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 216,444</b>	<b>\$ 721,299</b>	<b>\$ 937,743</b>	<b>\$ 827,738</b>



**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS**

**Year ended June 30, 2006**

**With Comparative Totals for Year ended June 30, 2005**

	Employee Benefit	Motor Vehicle	Totals	
			2006	2005
OPERATING REVENUES:				
Charges for services	\$ 762,893	\$ 510,244	\$ 1,273,137	\$ 1,292,257
Other revenue	98,631	4,617	103,248	127,654
<b>TOTAL OPERATING REVENUES</b>	<b>861,524</b>	<b>514,861</b>	<b>1,376,385</b>	<b>1,419,911</b>
OPERATING EXPENSES:				
General government administration	2,263	25,661	27,924	28,333
Garage maintenace	-	103,289	103,289	105,345
Operations and maintenance	-	202,751	202,751	223,699
Depreciation	-	103,767	103,767	97,259
Benefit payments:				
Payroll taxes	105,917	-	105,917	98,796
Retirement plan expense	88,370	-	88,370	94,016
Holiday pay	35,088	-	35,088	34,688
Sick pay/personal leave	47,038	-	47,038	42,575
Vacation pay	73,012	-	73,012	71,796
Workers' compensation insurance	60,819	-	60,819	53,700
Hospitalization insurance	387,854	-	387,854	401,649
Employee life insurance	6,871	-	6,871	6,838
Longevity pay	17,200	-	17,200	15,816
Employee picnic	600	-	600	600
Other	4,370	-	4,370	4,111
<b>TOTAL OPERATING EXPENSES</b>	<b>829,402</b>	<b>435,468</b>	<b>1,264,870</b>	<b>1,279,221</b>
<b>OPERATING INCOME (LOSS)</b>	<b>32,122</b>	<b>79,393</b>	<b>111,515</b>	<b>140,690</b>
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	35,745	35,745	350
Interest income	544	244	788	557
Interest expense	-	(7,753)	7,753	(6,950)
Operating transfers out	-	-	-	-
Operating transfers in	-	-	-	-
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>544</b>	<b>28,236</b>	<b>28,780</b>	<b>(6,043)</b>
<b>NET INCOME (LOSS)</b>	<b>32,666</b>	<b>107,629</b>	<b>140,295</b>	<b>134,647</b>
<b>RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR</b>	<b>10,172</b>	<b>369,737</b>	<b>379,909</b>	<b>245,262</b>
<b>RETAINED EARNINGS (DEFICIT), END OF YEAR</b>	<b>\$ 42,838</b>	<b>\$ 477,366</b>	<b>\$ 520,204</b>	<b>\$ 379,909</b>

**CITY OF HANCOCK**  
**INTERNAL SERVICE FUNDS**  
**COMBINING STATEMENTS OF CASH FLOWS**  
**Year Ended June 30, 2006**

	Employee Benefit	Motor Vehicle	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 0	\$ 0	\$ 0
Payments to suppliers	(819,468)	(270,606)	(1,090,074)
Internal activity -- receipts (payments) to other funds	762,893	478,817	1,241,710
Payments to employees	(519)	(38,093)	(38,612)
Other receipts (payments)	106,890	3,625	110,515
Net cash provided by operating activities	49,796	173,743	223,539
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Operating subsidies and transfers to other funds	(51,720)	(82,558)	(134,278)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Capital Contributions	0	0	0
Purchases of capital assets	0	(86,489)	(86,489)
Sale of capital assets	0	36,545	36,545
Principal paid on capital debt	0	(26,227)	(26,227)
Interest paid on capital debt	0	(7,753)	(7,753)
Net cash (used) by capital and related financing activities	0	(83,924)	(83,924)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of investments	0	0	0
Interest and dividends	544	244	788
Net cash provided by investing activities	544	244	788
Net (decrease) in cash and cash equivalents	(1,380)	7,505	6,125
Balances -- beginning of the year	19,022	15,198	34,220
Balances -- end of the year	\$ 17,642	\$ 22,703	\$ 40,345
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 32,122	\$ 79,393	\$ 111,515
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	0	103,767	103,767
Change in assets and liabilities			
Receivables, net	8,259	(992)	7,267
Due from other governmental units	0	0	0
Inventory	0	0	0
Prepaid expenses	7,863	216	8,079
Accounts and other payables	2,071	(7,053)	(4,982)
Due to other governmental units	0	0	0
Accrued expenses	(519)	(1,588)	(2,107)
Net cash provided by operating activities	\$ 49,796	\$ 173,743	\$ 223,539

**CITY OF HANCOCK**  
**EMPLOYEE BENEFIT FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year ended June 30, 2006**  
**With Comparative Actual Amounts for Year ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Charges for services	\$ 798,537	\$ 762,893	\$ 35,644	\$ 753,380
Other revenue	<u>152,091</u>	<u>98,631</u>	<u>53,460</u>	<u>126,611</u>
TOTAL OPERATING REVENUES	<u>950,628</u>	<u>861,524</u>	<u>89,104</u>	<u>879,991</u>
EXPENSES:				
General government administration	1,537	2,263	(726)	43
Benefit payments:				
Payroll taxes	103,118	105,917	(2,799)	98,796
Retirement plan expense	105,000	88,370	16,630	94,016
Holiday pay	33,150	35,088	(1,938)	34,688
Sick pay/personal leave	36,720	47,038	(10,318)	42,575
Vacation pay	69,360	73,012	(3,652)	71,796
Workers' compensation insurance	50,000	60,819	(10,819)	53,700
Hospitalization insurance	467,033	387,854	79,179	401,649
Employee life insurance	3,312	6,871	(3,559)	6,838
Longevity pay	16,116	17,200	(1,084)	15,816
Employee picnic	710	600	110	600
Other	<u>4,258</u>	<u>4,370</u>	<u>(112)</u>	<u>4,111</u>
TOTAL OPERATING EXPENSES	<u>890,314</u>	<u>829,402</u>	<u>60,912</u>	<u>824,628</u>
OPERATING INCOME (LOSS)	60,314	32,122	28,192	55,363
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	-	-	-	-
Interest income	237	544	(307)	369
Interest expense	-	-	-	-
Operating transfers out	-	-	-	-
Operating transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>237</u>	<u>544</u>	<u>(307)</u>	<u>369</u>
NET INCOME (LOSS)	<u>\$ 60,551</u>	32,666	<u>\$ 27,885</u>	55,732
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>10,172</u>		<u>(45,560)</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 42,838</u>		<u>\$ 10,172</u>

**CITY OF HANCOCK**  
**MOTOR VEHICLE FUND**  
**SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS**  
**BUDGET AND ACTUAL**  
**Year ended June 30, 2006**  
**With Comparative Totals for Year ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Charges for services	\$ 397,191	\$ 510,244	\$ 907,435	\$ 538,877
Other revenue	591	4,617	5,208	1,043
	<u>397,782</u>	<u>514,861</u>	<u>912,643</u>	<u>539,920</u>
TOTAL OPERATING REVENUES				
OPERATING EXPENSES:				
General government administration	25,613	25,661	51,274	28,290
Garage maintenance	97,169	103,289	200,458	105,345
Operations and maintenance	205,480	202,751	408,231	223,699
Depreciation	-	103,767	103,767	97,259
	<u>328,262</u>	<u>435,468</u>	<u>763,730</u>	<u>454,593</u>
TOTAL OPERATING EXPENSES				
OPERATING INCOME (LOSS)	69,520	79,393	148,913	85,327
NON-OPERATING REVENUES (EXPENSES):				
Gain on sale of assets	3,060	35,745	38,805	350
Interest income	946	244	1,190	188
Interest expense	(71,400)	(7,753)	79,153	(6,950)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(67,394)</u>	<u>28,236</u>	<u>(39,158)</u>	<u>(6,412)</u>
NET INCOME (LOSS)	<u>\$ 2,126</u>	107,629	<u>\$ 109,755</u>	78,915
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>369,737</u>		<u>290,822</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 477,366</u>		<u>\$ 369,737</u>

**CITY OF HANCOCK**  
**CEMETERY PERPETUAL CARE TRUST FUND**  
**SCHEDULES OF REVENUES, EXPENSES,**  
**AND CHANGES IN RETAINED EARNINGS - BUDGET AND ACTUAL**  
**Year ended June 30, 2006**  
**With Comparative Actual Amounts for Year ended June 30, 2005**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>2005</u>
OPERATING REVENUES:				
Other revenue	\$ 4,968	\$ 1,925	\$ 6,893	\$ 325
TOTAL OPERATING REVENUES	<u>4,968</u>	<u>1,925</u>	<u>6,893</u>	<u>325</u>
OPERATING EXPENSES:				
General government administration	<u>236</u>	<u>-</u>	<u>236</u>	<u>(1)</u>
TOTAL OPERATING EXPENSES	<u>236</u>	<u>-</u>	<u>236</u>	<u>(1)</u>
OPERATING INCOME (LOSS)	4,732	1,925	6,657	326
NON-OPERATING REVENUES (EXPENSES):				
Interest income	<u>1,774</u>	<u>3,786</u>	<u>5560</u>	<u>1,672</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,774</u>	<u>3,786</u>	<u>5,560</u>	<u>1,672</u>
NET INCOME (LOSS)	<u>\$ 6,506</u>	5,711	<u>\$ 12,217</u>	1,998
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR		<u>152,352</u>		<u>150,354</u>
RETAINED EARNINGS (DEFICIT), END OF YEAR		<u>\$ 158,063</u>		<u>\$ 152,352</u>

**TRANSIT FUND SUPPLEMENTAL INFORMATION**

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**MDOT-PASSENGER TRANSPORTATION DIVISION**  
**OPERATING REVENUE**  
**For the Year Ended June 30, 2006**

	07/01/05 through 09/30/05	10/01/05 through 06/30/06	Total
Farebox receipts- passenger fares	\$ 5,106	\$ 22,640	\$ 27,746
Contract Fares	506	993	1,499
State Operating Assistance	10,247	41,602	51,849
Federal Section 5311	4,263	20,309	24,572
Federal RTAP	0	2,658	2,658
Interest Income	44	127	171
Total Operating Revenue	<u>\$ 20,166</u>	<u>\$ 88,329</u>	<u>\$ 108,495</u>

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**MDOT-PASSENGER TRANSPORTATION DIVISION**  
**OPERATING EXPENSES**  
**For the Year Ended June 30, 2006**

	07/01/05 through 09/30/05				10/01/05 through 06/30/06				Total			
	Operation	Maint.	Gen. Admin.	Total	Operations	Maint.	Gen. Admin.	Total	Operation	Maint.	Gen. Admin.	Total
Labor:												
Wages-operations	\$ 13,321	\$ 0	\$ 0	\$ 13,321	\$ 48,034	\$ 0	\$ 981	\$ 49,015	\$ 61,355	\$ 0	\$ 981	\$ 62,336
Other salaries and wages	0	2,292	687	2,979	0	9,752	1,671	11,423	0	12,044	2,358	14,402
Dispatchers wages	687	0	0	687	2,651	0	0	2,651	3,338	0	0	3,338
Fringe benefits	3,222	2,329	713	6,264	9,126	7,847	2,187	19,160	12,348	10,176	2,900	25,424
Services:												
Advertising	0	0	157	157	0	0	87	87	0	0	244	244
Other	597	373	67	1,037	1,051	1,755	211	3,017	1,648	2,128	278	4,054
Materials and supplies consumed:												
Fuel and lubricants	4,312	0	0	4,312	10,784	5,717	0	16,501	15,096	5,717	0	20,813
Tires and tubes	763	0	0	763	469	1,501	0	1,970	1,232	1,501	0	2,733
Major supplies	0	889	0	889	1,029	2,753	0	3,782	1,029	3,642	0	4,671
Other	0	0	0	0	49	0	0	49	49	0	0	49
Utilities	0	0	485	485	0	0	1931	1,931	0	0	2,416	2,416
Insurance	2,251	0	0	2,251	300	0	0	300	2,551	0	0	2,551
Operating Lease and Rentals	0	0	0	0	0	0	0	0	0	0	0	0
Miscellaneous expenses:												
Travel	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	18	18	3	54	277	334	3	54	295	352
Depreciation	0	0	0	0	17,639	0	0	17,639	17,639	0	0	17,639
	25,153	5,883	2,127	33,163	91,135	124,298	215,433	430,866	116,288	35,262	9,472	161,022
Less:												
Ineligible expenses- RTAP	2,743	0	0	2,743	0	0	0	0	2,743	0	0	2,743
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0
	\$ 22,410	\$ 5,883	\$ 2,127	\$ 30,420	\$ 91,135	\$ 124,298	\$ 215,433	\$ 430,866	\$ 113,545	\$ 35,262	\$ 9,472	\$ 158,279



**CITY OF HANCOCK**  
**TRANSIT FUND**  
**MDOT-PASSENGER TRANSPORTATION DIVISION**  
**COMPUTATION OF STATE AND FEDERAL OPERATING ASSISTANT**  
**For the Year Ended June 30, 2006**

<u>NON URBAN AREAS</u>	<u>07/01/05 through 09/30/05</u>	<u>10/01/05 Through 06/30/06</u>	<u>Total</u>
STATE OF MICHIGAN			
Total Eligible Expenses	\$ 29,531	\$ 158,279	<u>\$ 187,810</u>
Reimbursement Rate %	39.9234%	39.2546%	
Eligible operating assistance	<u>\$ 11,790</u>	<u>\$ 62,132</u>	<u>\$ 73,922</u>
FEDERAL SECTION 5311			
Total Eligible Expenses	\$ 29,531	\$ 158,279	<u>\$ 187,810</u>
Reimbursement Rate %	12.4000%	15.0000%	
Eligible operating assistance	<u>\$ 3,662</u>	<u>\$ 23,742</u>	<u>\$ 27,404</u>

**CITY OF HANCOCK**  
**TRANSIT FUND**  
**MDOT-PASSENGER TRANSPORTATION DIVISION**  
**MILEAGE DATA REPORT (UNAUDITED)**  
**For the Year Ended June 30, 2006**

<u>Quarter Ending:</u>	<u>Miles</u>
September 30, 2005	16,388
December 31, 2005	16,120
March 31, 2006	15,889
June 30, 2006	16,937
Total Miles	<u>65,334</u>



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

We have audited the financial statements of the City of Hancock as of and for the year ended June 30, 2006, and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Hancock's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Hancock's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkila, CPA, PC*  
Certified Public Accountants

October 23, 2006



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

**Compliance**

We have audited the compliance of the City of Hancock with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Hancock's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Hancock's management. Our responsibility is to express an opinion on the City of Hancock's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hancock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hancock's compliance with those requirements.

In our opinion, the City of Hancock complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of the City of Hancock is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hancock's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Bruce A. Rukkala, CPA, PC*

Certified Public Accountants

October 23, 2006

**CITY OF HANCOCK**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the year ended June 30, 2006**

<b><u>Federal Grantor/Pass-through Grantor/Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
U.S. Department of Agriculture		
Community Facilities Loans and Grants		
Loan	10.766	\$ 550,000
Grant	10.760	<u>85,000</u>
		<u>635,000</u>
U.S. Department of Housing and Urban Development - State Programs		
Pass-through programs from:		
State of Michigan - Grant project MSC-2005-0657-RR	14.228	65,115
U.S. Department of Transportation - Federal Transit Administration		
Pass-through programs from:		
State of Michigan, Michigan Department of Transportation		
Section 5311	20.509	24,572
RTAP	20.509	<u>2,658</u>
Total expenditures of federal awards		<u>\$ 727,345</u>

**CITY OF HANCOCK**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended June 30, 2006**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

***Financial Statements***

Type of auditor's report issued:	Unqualified
Internal Control over financial reporting:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs:	
• Material weakness(es) identified?	No
• Reportable condition(s) identified that are not considered to be material weaknesses?	None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 520(a) of Circular A-133?	No
Identification of major programs:	
Name of Federal Program	<u>CFDA Number</u>
U.S. Department of Agriculture Community Facilities Loans and Grant	10.766
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**SECTION II - FINANCIAL STATEMENT FINDINGS - No matters were reported.**

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - No matters were reported.**

**CITY OF HANCOCK**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2006**

**NOTE A - OVERSIGHT AGENCY**

The U. S. Department of Agriculture is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City's expenditures of federal awards.

**NOTE B - BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

**NOTE C - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION**

A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards to federal revenue recognized on page 93 of these financial statements is \$727,345.

Federal Awards are reported in the financial statements as follows:

General Fund:		
USDA Community Facilities Loan proceeds	\$	550,000
USDA Community Facilities Grant proceeds		85,000
CDBG Fund:		
Grant Project MSC-2005-0657-RR		65,115
Transit Fund:		
Section 5311		24,572
RTAP		2,658
Total Transit		<u>27,230</u>
TOTAL	\$	<u><u>727,345</u></u>





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## **COMMENTS AND RECOMMENDATIONS LETTER**

Honorable Mayor and Members of the City Council  
City of Hancock  
Hancock, Michigan

In connection with our audit of the financial statements of the City of Hancock, for the year ended June 30, 2006 the following concerns regarding the accounting records, procedures, and internal accounting control structure came to our attention and are presented for your consideration.

Our comments are based upon conditions noted during our audit and are not intended to be all inclusive. These comments are submitted as constructive suggestions to assist you in strengthening controls and procedures.

### **Budget Approval**

According to Michigan Department of Treasury budget revisions and approval must be performed prior to the fiscal year end. We noted the budget was not approved until July, 2006. We recommend the City's annual budget be approved prior to the beginning of the fiscal year to which the budget pertains and revisions approved before the end of the fiscal year.

It is also important, when adopting or amending the budget, to report in the board minutes the total revenues and expenditures approved and attach a signed copy of the budget to the board minutes.

### **Public Act 621 - Budget Over Expenditures**

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information.

On July 5, 2006 the City approved amendments to the budget for the fiscal year June 30, 2006 eliminating a majority of the budget violations. Since the budget was approved after the fiscal year end, the amendments were not recognized in the financial statements.

### **Public Act 275 of 1980**

The City had a fund balance deficit as of June 30, 2006 in the Parking Meter Fund and the Transit Fund in the amount of \$4,723 and \$11,387 respectively.

We recommend that the Council monitor the fund balances of all funds more closely and take steps to avoid such deficits as necessary. In accordance with Public Act 275 of 1980, the City must formulate and file a deficit elimination plan (DEP) with the State Treasurer to correct the deficit situation. This DEP must contain: (1) a copy of current trial balances showing the deficit eliminated; (2) copies of Council resolutions approving operating transfers used to eliminate the deficit; and (3) a projected budget, approved by the Council, itemizing the revenues, expenditures and the changes in the fund balance.

Public Act 738 - Electronic Transactions of Public Funds

The District should be aware of Act 738 – "Electronic Transactions of Public Funds". This Act affects electronic payments and transfers by local unites, including school districts. The Act requires the District to adopt a resolution to authorize use of automated clearinghouse (ACH) arrangements. The District needs to designate an Electronic Transaction Officer, develop a written policy regarding procedures and internal controls, and initiate a board resolution to adopt the ACH policy. The Electronic Transaction Officer that the District chooses will be responsible for the ACH agreements that include payment approval, accounting, reporting, and compliance with the ACH policy.

We would like to thank the administrative staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present these comments and recommendations for your consideration and we are prepared to discuss them at your convenience.

This report is intended solely for the use of management and the governmental regulatory agencies and should not be used for any other purposes.

*Bruce A. Rukkila, CPA, PC*

Certified Public Accountants

October 23, 2006